CHAPTER I
INTRODUCTION

1.1 General Background of Study

Nepal is one of the least developed countries of the world. The economic development of the country, is reflected by the annual GDP growth rate, is also not very significant. Nepal's average GDP growth rate in recent years is 3.5% as of December 2011 and it has the fluctuating trend (source: http://en.wikipedia.org/wiki/Economy_of_Nepal). The development of any country largely depends upon its economic development. Thus, the primary goal of any nation, including Nepal is rapid economic development to promote the welfare of the people and the nation as well.

Nepal, being a developing country, is trying to embark upon the path of economic development by economic growth rate and developing all sector of economy. Even though, the process of economic development depends upon various factors, however economist are now convinced that capital formation and its proper utilization plays a vital roles. "The increase in capital has always been a sort of prime mover in the process of material growth and the rate of capital formulation has been the principal variable in setting the overall pace of economic development." In this regard, the network of well-organized financial system of the country has great bear. It collects scattered financial resources from the masses and invests them among those engaged in economic and commercial activities of the country. In this way, financial institutions provide savers liquid divisible assets at a lower risk while the investor receives a large pool of resources. Commercial banks are major financial institutions, which occupy quite an important place in the framework of every economy because they provide capital for the development of industry, trade and business and other resource deficit sectors by investing the saving collected as deposits. Besides this, commercial banks render numerous services to their customer in view of facilitating their economic and social life. Commercial banks, by playing active roles, have changed the economic structure of the world. Thus, Commercial banks become the heart of financial system. Every commercial bank should consider government and central bank instructions.

The word globalization just breaks the man made lines in the geography. Nepal entered in to the globalization by 2004 in the name of WTO. A small, land locked, poor, and donor dependent country like Nepal the membership to the WTO is not a matter of choice. Membership of WTO was necessary whether consequences are positive or negative. Therefore, the only choice Nepal has to mitigate the negative consequences and try to utilize potential benefits. Membership of WTO for Nepal brings both positive and negative impacts. While the benefits are only potentialities in the long run, many risks, pitfalls and costs associated with the new globalization trend are bitter realities facing most Least Developed Countries (LDCs). On April 23, 2004, Nepal became the 147th member of the World Trade Organization (WTO). Membership in the WTO entails a whole range of commitments along with their implementation periods. The focus and the research study report is regarding the commitment in financial services, especially foreign bank branches under the General Agreement on Trade in Services (GATS). WTO covers international trade in goods and services at the same time it also includes intellectual property rights within its domain. During the accession process, Nepal had made commitment in the Financial Services sector of the General Agreements on Trade in Services for allowing the operation of foreign bank branches in wholesale bank branching beginning from January 1, 2010. Financial services are the backbone of the modern economy. Financial services are crucial for savings and efficient resource allocation, which facilitate economic growth. Internationalization can help countries build more robust and efficient financial systems by introducing international practices and standards by improving quality, efficiency, and breadth of financial services and by allowing more stable sources of funds. Realizing the enormous potential benefits that could derive from the liberalization of financial services, countries have committed multilaterally under the GATS. However, the course of accession negotiation for membership in WTO and at the request of some WTO members, Nepal has committed to allow foreign bank branches in the context of wholesale banking, only after 1 January 2010. In the mean time, the new Bank and Financial Institution Ordinance has enforced from 2004, which has also incorporated a provision under section 4(3) that allows incorporating a bank and financial institution in Nepal, fully owned as a subsidiary of a Foreign Bank or a Financial Institution. The commitment on WTO for foreign bank branches in Nepal is of particular interest to the Nepal Rastra Bank (NRB) the central bank of the country - since it touches on the health and stability of the domestic financial system. That is, foreign bank branches have a direct impact on the health and stability of the domestic financial system through greater domestic competition in the financial sector from different corners. Like financial intermediation in the domestic economy, technological transfer, greater level of service-choices to the consumers, higher levels of financial flows through the access to foreign capital, interlink of domestic financial system with global financial intermediation etc. Further, stability of the domestic financial system is important since it facilitates capital formation and assists in domestic economic growth and development. It have given the above description and necessity, it is essential to forward necessary rules and regulations to maximize the benefits from the commitment of allowing the presence of foreign bank branches in the country.

Nepalese banking industry has significant changes over past decades because of liberalization, deregulation, advances in information technology and globalization. The financial sector liberalization resulted into entry of new firms in the market, deregulation widened the scope of activities and delimited the banking activities, advancement in technology resulted into new ways and tools to perform banking activities and globalization added more pressure on competitiveness of individual banks. Moreover, the banks, nowadays, are entering into non-banking markets and other financial institutions are entering into the banking markets that have traditionally served by the banks. These changes have changed the structure and market behavior of Nepalese banking industry. Nepal Rastra Bank (NRB), the Central Bank of Nepal, is eminently aware that the country's membership into the World Trade Organization (WTO) has an impact on the health and stability of the domestic financial system. During the membership accession process, Nepal had made commitment to allow foreign bank branches in the context of wholesale banking. This commitment will have an effect on the sustainable health and stability of the domestic financial system. In this regard, the Bank has shown intense interest on this commitment since NRB has given the responsibility of ensuring domestic financial stability by the NRB Act 2002. The High Level Committee on WTO related matters decided on December 9, 2003 to establish an interdepartmental taskforce to regulating foreign bank branches and to ensure domestic financial stability. "Foreign Bank branches and the health and stability of Nepal's financial system" the primary objective is to provide recommendation of necessary legal, regulatory, and supervisory aspects with regard to foreign bank branches. NRB is aware that this multilateral commitment will have a significant impact on the health and stability of the domestic financial system. The objective was to conduct a comparative study examining the experiences of selected countries in this regard, rules and regulations for foreign bank branching and make recommendations keeping in mind the context of the Nepalese situation It provides comparative analysis of selected countries and important recommendations.

1.1.1Evolution of the Banking System in Nepal

Introduction: There is a different opinion on the origin of bank. The banking system was prevalent in an organized way from ancient time the term bank and originated from Italian word Banco that meant bench. Banks are the principal source of credit for millions of individuals, families & for many units of government. They are among the most important financial institutions in the economy. In most years, they are among the leading buyers of bonds and notes issued by government to finance public facilities ranging from hospital and football stadiums to airport & highways.

According to Peter S. Rose "Bank is a finance intermediary accepting deposits & granting loans, offers the widest menu of services of any financial institutions”

According to Horace White, "A bank is a manufacture of credit and machine for facilitating exchange"

1.1.2 History of bank:

During the early periods, private individuals mostly did the banking business. As public enterprise, banking made its first appearance in Italy in 1157, when the bank of Venice was established. History shows the existence of a Monte in Florence in 1336. The meaning of Monte as given in the Italian dictionary as a standing bank. The history of banking started from the very beginning. It started when goldsmith deposited valuables from people and changes same amount to the people for doing the same.

1.1.3 Development of Banking System in Nepal

The initiation of formal banking system in Nepal commenced with the establishment in 1937 of Nepal Bank Limited (NBL), the first Nepalese commercial bank. The country's central bank, Nepal Rastra Bank (NRB) established in 1956 by Act of 1955, after nearly two decades of NBL having been in existence. A decade after the establishment of NRB, Rastriya Banijya Bank (RBB), a commercial bank under the ownership of Nepal government was established. Thereafter, Nepal government adopted open and liberalized policies in the mid 1980s reflected by the structural adjustment process, which included privatization, tariff adjustments, and liberalization of industrial licensing, easing of terms of foreign investment and more trade that is liberal and foreign exchange regime initiated. In context of Nepal our history of banking sector is rather more slow evolution even now, the banking system is still in the evolutionary phase. However, in Nepal, banking history it said to started from 723 AD when a king named *Gunakama Dev* borrowed money to reconstruct his kingdom, Kathmandu. Similarly, *Jayasthiti Malla* established a caste *Tankadhari* to lend money to the people. In 1877 AD, *Tejarath Adda* was established as a financial institution during the prime minister ship of *Ranoddip Singh*. At the beginning, only government staffs allowed to take loan at 5% interest rate, later, public allowed to take loan, after depositing collateral, at the same rate. Nepal Bank Limited replaced *Tejrath Adda* with the ownership of public and government on 1937 AD under Nepal bank act 1937 AD. Under the guidance of Nepal Rastra Bank, the commercial banks establish a branch in each district of the country. The growing influence of liberal economic policies in early 80’s first of all appeared in the form of Nepal’s liberal policies in the banking sector. The financial system in Nepal has undergone rapid change particularly during the past decade. By 2012, NRB licensed bank and non- bank financial institutions totaled 270. Out of them, 32 are commercial banks, 86 development banks, 77 finance companies, 21 Micro finance company, 16 saving & credit co-operative and 38 NGO’s. APPENDIX-I Table 1.1 reflects the present financial companies in Nepal on Mid-June 2012.

However, there was a need of central bank in the country therefore Nepal Rastra Bank the central bank of the country came into existence in 1956. Later on, it was follow by another commercial bank called Rastriya Banijya Bank with the full government ownership. The Nepalese authorities restricted the entry of new bank for many years in order to protect the entry of new bank for many years in order to protect the domestic banks. However, the authorities ultimately lifted its restriction in 1984 on the entry of new banks in the form of joint venture banks with foreign collaboration.

1.2 Focus of the Study

A country's prosperity largely depends upon the economic activities of that country and the financial institution play a vital role to smoothen the economic activities. There is a perfect positive correlation between the economic growth of a country and the exercise of different financial instrument of that country. Foreign bank means the bank and financial institution having its head office in a foreign country upon being included under the foreign law. Branch office of foreign bank based in Nepal means the office established by the foreign bank or financial institution in Nepal for operating wholesale banking transaction pursuant to Nepal law upon obtaining approval from the Nepal Rastra Bank. The Wholesale banking transaction means large-scale banking transaction. The foreign bank or financial institution licensed to operate banking transaction in a foreign country upon having established its central office in home country. License policies and procedures regarding the foreign bank branches and its Legal provisions in the context of WTO and Domestic legal Provision. The main regulation is regarding capital requirement with Monitoring and supervision system of foreign Bank branches. Comparative Analysis between SAARC and SEACEN country here India, Sri lanka, Indonesia and Thiland are taken to the sample. Application Procedures for establishing Domestic and Foreign Bank Branches in Nepal. Existing Scenario of Banking Sector in Nepal and its Domestic Legal Provisions, Rules and Regulations with relating to the foreign Bank branches. In this study seven foreign Joint venture Bank are taken into consideration for the study on the basis of quota sampling among 32 commercial banks in Nepal. A brief introduction of the sample banks foreign joint venture bank is given here to become familiar the organizations' background and their performances in Nepal.

APPENDIX-II Table 1.2 reflects the list of foreign joint venture Bank in Nepal

1.2.1 Foreign Bank in Nepal in the context of WTO memberships

During the course of negotiating for accession to WTO, Nepal made commitments for bank branches. However, three aspects are worth mentioning. First, there is a transition period where foreign bank branches were only allow as of January 1, 2010. Second, entries of financial institutions are limited to a rating of at least “B” by Credit Rating Agency e.g. MOODY, Standard, & Poor etc. Lastly, establishment of foreign bank branches are subject to the domestic laws, rules, regulations, terms and conditions of the Nepal Rastra Bank. The General Agreement on Trade in Services (GATS) is among the World Trade Organization’s (WTO) most important agreements. The accord, which came into force in January 1995, is the first and only set of multilateral rules covering international trade in services. The Governments themselves have negotiated it, and it sets the framework within which firms and individuals can operate. The GATS has two parts: agreement containing the general rules and disciplines and the national “schedules” which list individual countries specific commitments on access to their domestic markets by foreign suppliers (WTO 2001). Nepal officially obtained the WTO membership on 23 April 2004 as 147th member. It was highly anticipated that Nepal’s membership in such a rules-based trading regime would integrate national economy to the global mainstream, expand trade, and market access opportunities, thereby is essential for expanding its trade opportunities, facilitating competition, and absorbing knowledge. Financial sector coverage is further elaborated in the GATS Legal. Following a rule based trading regime was supposed to ensure domestic policy stability and enhance institutional capabilities that help increase productivity, foreign direct investment, and exposure to new technologies. Maintaining the all branches of economic activity today is fundamentally dependent on access to financial services. In fact, it is the diversified intermediation and risk management services of the financial system, which have made possible the development of modern economies. A healthy and stable financial system, underpinned by sound macroeconomic management and prudential regulation, is an essential ingredient for sustained growth. Conversely, macroeconomic instability emanating from weaknesses in the financial sector can undermine the process of development. The continuing globalization of economic activity, and the challenge, of attracting productive investments in a competitive international environment, accentuates the need to maintain a healthy and efficient financial sector.

1.2.2 Banking & other Financial Services in the GATS as stated below:

(i) Acceptance of deposits and other repayable funds from the public

(ii) Lending of all types, including, inter-alia, consumer credit, mortgage credit, factoring and financing of commercial transactions

(iii) Financial leasing

(iv) All payment and money transmission services

(v) Guarantees and commitments

(vi) Trading for own account or for account of customers, whether on an exchange, an over-the-counter market or otherwise.

(vii) Participation in issues of all kinds of securities, including under-writing and placement as agent (whether publicly or privately) and provision of service – related to such issues

(viii) Money broking

(ix) Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial depository and trust services

(x) Settlement and clearing services for financial assets, including securities, derivative products, and other negotiable instruments.

(xi) Provision and transfer of financial information, and financial data processing and related software by providers of other financial services.

(xii) Advisory services on all the activities listed above.

1.2.3 The framework of SEACEN Centre

The South East Asian Central Banks (SEACEN) Research and Training Centre was the first established as a legal entity in 1982 with eight member central banks (Bank Indonesia, Bank Negara Malaysia, Central Bank of Myanmar, Nepal Rastra Bank, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore, Central Bank of Sri Lanka, and Bank of Thailand). The SEACEN Centre is located in Kuala Lumpur, Malaysia. Centre reviews and analysis financial, monetary, banking, and economic developments in its constituent member countries and in the region as a whole. It initiates and facilitates co-operation in research and training relating to the policy and operational aspects of central banking. Since 2001, training has become the principal activity of The SEACEN Centre, focusing on areas that have practical applications in central banking, i.e. monetary policy, banking supervision, payments, and settlement systems. Research papers are presented and used as course materials at appropriate training events, which plays supporting functions.

The objectives of The SEACEN Centre as stated in the memorandum and Articles of Association of the South East Asian Central Bank (SEACEN) Research and Training Central as below:

- To promote a better understanding of the financial, monetary, banking and economic development matters which are of interest to the central banks and monetary authorities of the countries in south East Asia or of interest to the region as a whole.
- To stimulate and facilitate co-operation among central banks and monetary authorities in the area of research and training.

The SEACEN Centre was established as a legal entity in 1982 with eight member Central Banks. Its membership has grown to 17 member Central Banks are mention in the APPENDIX-III Table 1.2 reflects the list of Member Bank of SEACEN centre.

Now, in line with the commitment made by Nepal under the financial service sector of the General Agreement on Trade in Services while entering into the World Trade Organization on 23 April 2004 as the 147th member. Policy Provision had brought into force pursuant to Section 34 of the Banks and Financial Institutions Act, 2006 for branch office to open in Nepal by a foreign bank and financial institution willing to carry on wholesale banking transaction from 1 January 2010.

1.4 Statements of the Problem

The concept of the foreign bank in Nepalese banking industry in Nepal is not widely analyzed yet. The concept of foreign banking industry in Nepal has been affected and trapped by various mysterious conditions due to different economic and non-economic factors. In reality, foreign banking concept is trapped by regulatory body of the country. Since objective of the study is to analysis the legal, regulatory and supervisory provision of foreign bank and its problems and possibilities with special reference to foreign joint venture bank in Nepalese market. The major problem in almost all underdeveloped countries and Nepal is no exception, is that of capital formation and proper utilization. To grant license to a foreign bank or financial institution for financial transaction having established its branch office in Nepal upon taking into account the goodwill and reputation of such a bank or financial institution have to work tough. In order to strengthen and consolidate the economy by mobilizing sufficient national and foreign capital for development of infrastructure of social and financial sectors within the country in view of contributing to the banking development by enhancing efficiency of the banking and financial system of the country its need to establish foreign bank in the country and adjustable environment should be made. Problem does not occur in days or in short span. It is the outcome of the previous uninspected mistakes.

- Government failed to allocate to disperse budget in different fields. Therefore, there was no flow of money in the market in which creating financial crisis.
- The problem was created due to negligence of government and Regulatory body. Therefore, it must take different steps to maintain the financial system through different monetary policies.

These problems cannot solve at once so, the key player in solving this problem will be Government and Regulatory Body. The rules and regulations are the only tools of NRB to supervise and monitor the financial institutions. The effects of foreign banks on development and efficiency have been found to vary though. Limited general development and barriers can hinder the effectiveness of foreign banks. Banking and financial sectors have to earn trust from the depositors and clients. Big debtors and creditors must keep under close supervision. The current political scenario is instable and security has been major issue of the country which was compelled the lots of manufacturing company to close down there business. Therefore, these situations are the building block to launch foreign bank in Nepalese Banking industry. In addition, the remedies might be the solution for the solving of the current situation of Nepalese financial industry.

As per Nepal's commitment made to the World Trade Organization (WTO) during its accession on April 23, 2004, foreign banks can make their foray in Nepal to do only wholesale banking from Jan. 1, 2010. According to a new policy of Nepal Rastra Bank (NRB), foreign banks willing to open a branch in Nepal are required to bring in at least US$ 30 million (Rs. 2.24 billion) to get a license to start banking services here. Similarly, banks are required to invest at least another US$ 5 million (Rs. 374 million) for each branch they want to set up here. According to the central bank, the capital requirement was fixed as per the WTO's principle of national treatment for foreign companies. State of Nepal by liberalizes the banking and financial sectors.

- Is it necessary to open foreign bank in Nepalese banking industry?
- Is the government and regulatory body are preparing taskforce to inaugurate foreign bank in Nepalese banking industry?
- Is the Government and regulatory body are taking necessary legal provisions relating to the establishment, operation, management and regulation of banks and financial institutions.
- Does the Policy Provision for Opening Foreign Bank or Financial Institutions in Nepal have various problems?
- Do the political and economical condition is appropriate?
- Is the government is making cleared monetary policy?
- Is the Government and regulatory body are the major factor to effect inaugurate the foreign Bank in Nepal?

1.5 Objectives of the Study

The foundation for this study is based on the premise that the impact of Nepal’s commitments for foreign bank in Nepal. It is largely determined by the preparedness of the Nepalese monetary authority to meet this new challenge. In this regard, the primary objective is to produce a detailed and comparative study highlighting, among other matters, the necessary rules and regulations for foreign branch banking, keeping in mind the context of Nepalese situation and the framework for foreign banking, It was highly anticipated that Nepal’s membership in such a rules-based trading regime would integrate national economy to the global mainstream, expand trade, and market access opportunities, thereby is essential for expanding its trade opportunities, facilitating competition, and absorbing knowledge. The objective of the study is below mention:

- To evaluate the appropriate policy, directives and rules regarding the opening of foreign bank branches in Nepal.
- To examine the effectiveness of foreign bank branches in Nepalese Banking industry.
- To analyse the major financial indicator of the foreign Joint venture bank in Nepal.
- To examine the problem to inaugurate the foreign bank in Nepalese banking industry.
- To detect significance of foreign bank branches in Nepalese Banking Industry.

1.6 Significance of the Study

Nepal is becoming an attractive host jurisdiction for the foreign financial industry. The specific assignment is to recommend a regulatory structure that would be both effective in overseeing financial intermediaries that choose to do business in Nepal and practical in light of Nepal's existing legal and professional resources. Many developmental strategies could contribute to process, establishing an international financial service in Nepal is a comparatively attractive approach. Through licensing fees and related revenues, international financial firms would generate modest amounts of additional income for the Nepalese government. In addition, the development of foreign financial services in Nepal would provide new employment and business opportunities for a variety of sectors of the Nepalese economy, ranging from transportation to communications to hotels and a host of other support services. This increased ancillary business activity could generate further revenues for Government of Nepal. Equally important, the development of foreign financial services will introduce Nepalese professionals and government officials to sophisticated financial transactions and the regulatory practices of the most advanced industrialized countries. Over time, this exposure will enhance the human capital and business skills of the Nepalese people, giving the country a genuine comparative advantage that could last well into the next century. As Nepal develops these business skills and as the international financial community has greater exposure to the country, international investments in other areas of the Nepalese economy could also increase. This approach also has very few of the drawbacks typically associated with many other developmental strategies. Foreign Investment is one of the important engines of economic development. However, there is tough competition to attract Foreign Investment in their respective countries. Thus, Nepal should make policies in such a way that the mindset of foreign investors may change from **‘**Why Nepal’ to ‘Why not Nepal’. In this connection, Nepal’s position is weak in three aspects: (i) Nepal is a landlocked mountainous country without a seaport (ii) Nepal is weak in infrastructure development and (iii) although labor is cheap in Nepal, labor productivity is very low. To build up here foreign financial industry at a faster pace, besides peace and security, Nepal Government should bring favorable policies for foreign Bank industry so that investment and foreign financial institutions can be paying attention. Thus, the most important aspect is that Nepal should put into action the foreign financial industry Policy highly attractive compared to other countries. It is highly essential otherwise the foreign investors have many other countries to choose whose conditions are more favorable compared to Nepal. Nepal officially obtained the WTO membership on 23rd April, 2004 as 147th member. It was highly anticipated that Nepal’s membership in such a rules-based trading regime would integrate national economy to the global mainstream and expand trade and market access opportunities, thereby is essential for expanding its trade opportunities, facilitating competition and absorbing knowledge.

Potential benefits of foreign bank entry for the domestic economy in terms of better resource allocation and higher efficiency it specifically mentions that foreign banks may improve the quality and availability of financial services in the domestic financial market by increasing bank competition, and enabling the greater application of more modern banking skills and technology, serve to stimulate the development of the underlying bank supervisory and legal framework, and enhance a country’s access to international capital.

1.7 Limitations of the Study

The limitation of the study is mainly based on information obtained from secondary sources only. In addition, a great deal of reliance has to be place on the accuracy of the information provided from various sources. The present study does not focus on the specific issues of regulation, supervision etc. of foreign bank branches. Rather, a broad analysis and possible impact of foreign bank branches in Nepalese financial system is done. The study focuses the thin-skinned of the foreign bank policies which resultants the management a little bit hesitation to come up with open view regarding the legal, regulatory, and supervisory provision for foreign Bank in Nepal.

The broad and groundbreaking nature of this study in Nepal needs some limitations.

- Secondary data are use to analyze for result interpretations, so the accuracy of the findings depends on the reliability of the available information.
- The study mostly focused on previous literature, reports, and data.
- Absence of required data concerned with foreign banks Nepal limits the detail study
- The first is that the study is only as good as the data obtained. The second is that the paper focuses on representative sample of SAARC and SEACEN countries which are: SAARC (India and Sri Lanka) and SEACEN (Indonesia and Thailand).
- Due to the small sample size it may not fully represent.
- The study has covered only the recent five years data.
- Simple statistical techniques & financial indicator have been used in the analysis.

1.8 Organization of the Study

The whole study has been divided into five chapters.

Chapter 1 Introduction

In this chapter, it deal with the introductory part of the study, which includes background of the study, statement of the problem, objective of the study, significance, and limitation of the study.

Chapter 2 Review of Literature

This chapter deals with review of the different literature concerning the theoretical analysis and review of book, articles and thesis related to this study.

Chapter 3 Methodology

This chapter deals with research methodology used to carry out the research. It is includes research design, population and sample, source and technique of data collection, data analysis tools, primary data collection.

Chapter 4 Presentation and Analysis of Data

This chapter is the main part of the study, which includes analysis, interpretation, questionnaires, and survey analysis of the data using financial and statistical tools. In this chapter, the primary and secondary data collected from different sources are resented in systematic format, such as table, chart, and figures. Similarly, this chapter also includes the major finding of the study.

Chapter 5 Summary, Conclusions and Recommendation

Here it will give the summary and conclusions of the study and recommendations for further studies. This chapter consists of summary of the major findings of this thesis report and concludes the reports with the major recommendations and suggestions to the Nepal Rastra Bank and government about foreign bank in Nepal which is expected to be a reference to the executive, student, Researcher and other professionals in the field of banking management.

At the beginning part of the study Recommendation, Viva-voce sheet, Declaration, Acknowledgement, Table of contents, List of Tables, List of figures, Abbrebration are presented and at the end of the study Bibliography and Appendix are presented.

CHAPTER II
REVIEW OF LITERATURE

2.1 Background

Without the review of literature no any research work can be done. So that it should deeply study the different articles published\unpublished previous reports, bulletin, magazine tec. Literature review helps to make the research work easy and also helps to find out new things about the related subjects. Literature review helps to find out the unidentified problems. It also controls researcher in provide different directory to do different research work. This chapter provides some ideas on the literature that is related to this particular topic. Especially it covers a comprehensive review of the published and unpublished work by academician and scholars. Literature review is basically a “Stock Taking” of available literature in one’s field of research. The literature survey, thus, provides us with the knowledge of the status of their field of research. Therefore, this chapter has its own importance in the study. This chapter includes the review of previous studies, articles, and conceptual framework for the related studies. To present the real framework of the study, mere analysis is not enough and review of some related materials should be deal with to give the research a clear vision. Past study, knowledge provides foundation to the present study. In order to avoid the duplication on the study and provide continuity to the previous study, published and unpublished material has been reviewed, likewise internet surfing has made a great contribution to this study. Some of the journals and articles published by management experts in financial aspects and some previous thesis had reviewed in this section. Therefore, analyzing & presenting the following parts define this chapter:

- Conceptual/Theoretical review
- Review of related studies

2.2 Conceptual/Theoretical review

2.2.1 History of Nepalese banking system:

The initiation of formal banking system in Nepal commenced with the establishment in 1937 of Nepal Bank Limited (NBL), the first Nepalese commercial bank. The country's central bank, Nepal Rastra Bank (NRB) was established in 1956 by Act of 1955, after nearly two decades of NBL having been in existence. A decade after the establishment of NRB, Rastriya Banijya Bank (RBB), a commercial bank under the ownership of Nepal Government was established. Thereafter, Nepal Government adopted open and liberalized policies in the mid 1980s reflected by the structural adjustment process, which included privatization, tariff adjustments, liberalization of industrial licensing, easing of terms of foreign investment and trade that is more liberal and foreign exchange regime was initiated. With the adoption of liberalization policy, there has been rapid development of the domestic financial system both in terms of number of financial institutions and as ratio of financial assets to the GDP. Nepal has undergone rapid change particularly during the past decade. By 2012, NRB licensed bank and non- bank financial institutions totaled 270. Out of them, 32 are commercial banks, 86 development banks, 77 finance companies, 21 Micro finance company, 16 saving & credit co-operative and 38 NGO's. (*Sources NRB)*

Appendix-I reflect the list of financial institutions in Nepal

In the context of banking development, the 1980s saw a major structural change in financial sector policies, regulations, and institutional developments. Nepal government emphasized the role of the private sector for the investment in the financial sector. The financial sector liberalization, started already in the early eighties with the liberalization of the interest rates, encompassed further deregulation of interest rates, relaxation of entry barriers for domestic and foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management (Acharya et al, 2003). These policies opened the doors for foreigners to enter into banking sector under joint venture. Consequently, the third commercial bank in Nepal, or the first foreign joint venture bank, was set up as Nepal Arab Bank Ltd (now called as NABIL Bank Ltd) in 1984. Thereafter, two foreign joint venture banks, Nepal Indosuez Bank Ltd. (now called as Nepal Investment Bank) and Nepal Grind lays Bank Ltd (now called as Standard Chartered Bank Nepal Ltd.) was established in 1986 and 1987 respectively. Thereafter, another 32 commercial banks have been established within the period. Nepalese banking system has now a wide geographic reach and institutional diversification.

Although, Nepalese financial sector is dynamic, a lot of scope for development of this sector exists. This is because the banking and non-banking sectors have not been able to capture all the potentialities of business until this time. It is evident from the Rural Credit Survey Report that the majority of rural credit is supplied by the unorganized sector at a very high cost – perhaps being at two or three time of the formal sector - suggesting that the financial sector is still in the path of gradual development. Overdue loans and inefficiency of the older and the larger of commercial banks have aggravated and have been made to compete with the new trim banks with no rural operations. In addition, the commercial banks, domestic or joint venture have shown little innovation and positive attitude in identifying new areas of saving and investment opportunities. (Source: NRB)

2.2.2 Domestic Legal Provisions Regarding Banking Sector

Nepal Rastra Bank Act, 2002 has given full authority to the Nepal Rastra Bank regarding regulation, inspection and supervision of the banks and financial institutions. Bank and Financial Institution Ordinance, 2060, which is popularly known as Umbrella Act, has recently been enacted in unified form. Agricultural Development Bank Act, 1967, Commercial Bank Act, 1974, Finance Company Act, 1986, Nepal Industrial Development Corporation Act, 1990 and Development Bank Act 1996 have been repealed with the promulgation of this ordinance. The ordinance governs the functional aspect of banks and financial institutions. Some of the important provisions in the ordinance regarding the banking sector have been analyzed in this chapter as follows:

Any person wishing to incorporate a bank or financial institution to carry on financial transactions should incorporate a bank or financial institution as a registered public limited company under the prevailing law of Nepal with prior approval of NRB by fulfilling the conditions prescribed in section 4 of the ordinance. The individual desiring for the incorporation of such entity is required to submit an application to NRB for prior approval with the prescribed documents. The NRB is required to conduct necessary investigation and grant permission to establish a bank or financial institution with or without terms or conditions if all the criteria are met and information of disapproval with reason is to be given to the concerned person in case the application is denied. Similarly, any foreign bank or financial institution wishing to establish a bank or financial institution by making joint venture investment with a corporate body incorporated in Nepal or with a Nepali citizen or as a subsidiary company with 100% share is eligible to furnish the application to establish a bank or financial institution. However, the ordinance is silent about the percentage of equity investment in joint venture, such foreign corporate body can invest. It has been regulated by regulation till now as 75%. The ordinance prohibits anybody to conduct financial transaction except an established bank or financial institution and no bank or financial institution can use the proposed name for the purpose of carrying financial transaction without obtaining license from NRB. The bank or financial institution desiring to conduct financial transaction must submit an application for license to the NRB in the prescribed form including the prescribed fees, documents and description. NRB will grant license if it is satisfied with the basic physical infrastructure of the bank or financial institution if the issuance of license for operating financial transaction will promote healthy and competitive financial intermediary and protect the interest of the depositors, the applicant is competent to operate financial transaction in accordance with the provision of this ordinance and its regulation, directives, order or provisions of Memorandum and Article of Association and there are sufficient grounds to believe that the entity is competent to operate financial transaction.

The NRB will classify the institutions into "A" "B" "C" "D" groups on the basis of the minimum paid-up capital and provide the suitable license to the bank or financial institution. The authorized, issued and paid up capital of a license holder institution will be as prescribed by NRB from time to time. The NRB can issue directives to the license holder entity to increase its authorized, issued and paid-up capital if it deems necessary. Similarly, the license holder entity must maintain a capital fund according to ratio prescribed by NRB based on the basis of its total asset or risk weighted assets, and other transactions. At the same time, the license holder entity must maintain a risk fund according to ratio prescribed by NRB based on the basis of liability relating to its total asset and the other risk to be borne from off balance sheet transaction. The license holder entity must maintain general reserve fund regularly every year till the amount becomes double of the paid up capital of such entity.

The bank or financial institution can be upgraded if the authorized capital is enough for upper class, the institution has been able to make profit for last five years and the non-performing asset is within the prescribed limit. Similarly, the bank or financial institution can be degraded if it fails to meet prescribed capital within the time period, it has been making loss for last five years, it has violated the directives of Rastra Bank time and again and it fails to maintain Risk Management Fund as prescribed by it. The NRB will make necessary investigation and avail opportunity to clarify before taking such decisions.

The NRB is in full power to deny license for financial transaction if the conditions stipulated in ordinance are not met and it is also authorized to impose necessary conditions taking into account the existing financial position of the bank or financial institution, the interest of depositors and healthy operation of financial transaction. Similarly, it may increase, decrease or modify the terms and conditions time to time. The NRB can suspend the license of the license holder for a specific period of time issued for the purpose of carrying financial activities or it may order the bank or financial institution to close the operation of their office partially or fully if such a license holder acts against the provisions of the Nepal Rastra Bank Act, 2002, or the regulation made there under or fails to act in accordance with the order or directives issued by it or fails to act for the welfare and in the interest of the depositors. The NRB may cancel the license issued under this ordinance to carry on the financial transactions of the license holder under the certain circumstances as stipulated in the ordinance A foreign bank or financial institution desiring to open its office within the Nepal must submit an application to NRB in the form as prescribed along with the fees and particulars as prescribed. The NRB may issue a license to foreign bank or financial institution to carry on financial transaction by allowing them to open a office within the Nepal taking into account the situation of competition existing in the banking sector, the contribution that could be rendered in the Nepalese banking sector and the reputation of such foreign bank or financial institution. The NRB may specify necessary terms and conditions in the course of granting transaction license and it shall be the duty of the foreign bank or financial institution to comply with such terms and conditions. The section 34(4) of the ordinance reiterates that the provisions of the ordinance are to be complied by such foreign bank or financial institution. The foreign bank or financial institution, which has been issued license to operate financial transaction by opening its office within the Nepal, cannot open another bank or financial institution in joint venture within the Nepal. However, the provision for the contact or representative office of any foreign bank or financial institution will be as prescribed by NRB. Some of the important issues such as relationship with parent bank in case of liquidation and supervisory role of the different institutions (parent bank and parent bank's supervisory authority) have not been adequately addressed in this ordinance. Provisions relating to capital requirement are also silent in ordinance. However, it can be fixed by regulation. The section 47 of the ordinance prescribes functions of the bank or financial institutions. The entities functioning under sub-section (1) only can keep their name as bank of class "A" category. The functions of such bank are incorporated in subsection (1) (A) – (AF) which are in very detail. As per Nepal's commitments foreign bank branches are only allowed for wholesale banking functions. So all of the provisions stipulated in subsection (1) will not be relevant to the foreign bank branches. According to the ordinance, NRB has authority to make necessary regulation in this aspect. (Source: NRB Bulletin)

2.2.3 Existing Rules and Regulations Relating to the Banking Sector:

Followings are the requirements for establishing a new commercial bank in Nepal.

2.2.3.1 Regarding Paid up capital Requirements

- To establish a new commercial bank of national level, the paid up capital of such bank must be at Rs. 1000 million.
- To have an office in Kathmandu, the bank is required to have either joint venture with foreign banks and financial institutions or a technical service agreement (TSA) at least for three years with such institutions.
- In general, the share capital of commercial banks will be available for the promoters up to 70 percent and 30 percent to general public. The foreign banks and financial Institutions could have a maximum of 75 percent share investment on the commercial banks of national level. In order to provide adequate opportunity for investment to Nepali promoters in National level banks, only 20

percent of total share capital will be made available to public on the condition that the foreign bank and financial institution are going to acquire 50% of total share.

- Banks to be established with foreign promoters' participation have also to be registered fulfilling all the legal processes prescribed by the prevalent Nepal laws.
- To establish the commercial banks in all the places in the country other than in the Kathmandu valley, the paid up capital must be Rs.250 million. In this case, the commercial banks to be established outside Kathmandu Valley, share investment of promoters and general public should stand at 70 percent and 30 percent respectively.
- Banks to be established outside Kathmandu Valley could be allowed to operate throughout the country including Kathmandu Valley only on the condition that they have operated satisfactorily at least for a period of three years and they have brought their paid up capital level up to Rs. 2000 million and also fulfilled other prescribed conditions. Unless and until such banks do not get license to operate throughout the country, they will not be allowed to open any office in Kathmandu Valley.
- Of the total committed share capital, the promoters has to deposit in NRB an amount equal to 20 percent along with the application and another 30 percent at the time of receiving the letter of intent on the interest free basis. The bank should put into operation within one year of receiving the letter of intent. The promoters have to pay fully the remaining balance of committed total share capital before the banks comes into operation. Normally, within 4 months from the date of filing of the application, NRB should give its decision on the establishment of the bank whether it is in favor or against it. If it declines to issue license, it has to inform in writing with reasons to the concern body.

2.2.3.2 Regarding Promoters Qualification

- Action on the promoters' application will not be initiated by the Nepal Rasta Bank if it is proved that their collateral has been put on auction by the bank and financial institution as a result of non-payment of loans in the past, who have not cleared such loans or those in the black list of the Credit Information Bureau and five years have not elapsed from the date of removal of their name from such list. The application will be deemed automatically cancelled irrespective of it being on any stage of process of license issuance if the above events are proved.

- Of the total promoters, one-third should be its Chartered accountants or at least a graduate of Tribhuvan University or recognized institutions with major in economics or accountancy, finance, law, banking or statistics. Likewise, at least 25 percent of promoters group should have the work experience of the bank or financial institution or similar professional experience.
- An individual, who is already serving as a director in one of the bank and financial institutions licensed by Nepal Rastra Bank, cannot be considered eligible to become the director in other banks or financial institutions.
- Stockbrokers, market makers, or any individual/institution - involved as an auditor of the bank and institution carrying on financial transactions - cannot be a director.

2.2.3.3 Regarding the Sale of Promoters' Share

- Promoter group's share can be disposed or transferred only on the condition that the bank has been brought in operation, the share allotted to the general public has been floated in the market and after completion of three year from the date it has been registered in the Stock Exchange. Prior to the disposal of such shares, it is mandatory to get approval from the Nepal Rastra Bank.
- The share allotted to the public has to be issued and sold within three years from the date the bank has come into operation. Failing to fulfill such provisions, the bank cannot issue bonus share or declare and distribute dividends.
- Shareholders of the promoters group and their family members cannot have access to loans or facilities from the same institution. For this purpose, the meaning of the family members will comprise of husband, wife, son, daughter, adopted-son, adopted-daughter, father, mother, step-mother and depended brother and sister.

2.2.3.4 Regarding Branch Expansion Policy

The Commercial banks established with a head office in Kathmandu will initially be authorized to open a main branch office in the Valley and thereafter, they will be authorised to open one more branch in Kathmandu Valley only after they have opened two branches outside Kathmandu Valley. (Source: NRB Bulletin)

Procedural Aspects for Establishing a Commercial Bank: The following documents should be submitted sequentially while applying for the establishment of a Commercial Bank.

a. Following documents are required to be submitted along with the application to establish a commercial bank: -

- Application
- Bio-data of promoters
- Feasibility Study Report on the proposed commercial bank in the format prescribed by the Nepal Rasta Bank.
- Attested photocopies of the minutes within the promoters to organize the bank.
- Promoters agreement relating to operation of the bank
- Copies of Articles of Association & Memorandum in the prescribed format in the Company Act, 1996. The memorandum should compulsorily include, inter alia, the provision that no person, firm, company and related group of company will be allowed to hold beyond the 10 percent stake on the issued capital in one bank and altogether 15 percent stake in all the commercial banks.

b. Requirements in the case of participation of the firm established in Nepal:

- Photocopy of firm registration certificate
- Broad resolution stating the amount to be invested in the proposed bank.
- Certified photocopies of Articles of Association and Memorandum of the investing firm.
- List of Directors and proportion of their share ownership
- Tax clearance Certificate of the firm and its directors

c. Certified documents on prescribed amount deposited in the NRB

d. Commitment document of the collaborating foreign bank and financial institutions providing Technical Service Agreement in the case of proposed national level commercial bank to be established in the Kathmandu valley.

e. Additional requirements in the case of joint venture of foreign banks:

- Certified minute of the board of directors of the foreign bank with a commitment of the amount to invest on the proposed bank establishing in Nepal.
- Clearance letter from the regulatory authority or the central bank of the collaborating foreign bank.
- Last 3 year's audited balance sheet, P & L statement, & cash flow statements.
- Certified copies of joint venture agreement with Nepalese promoters to invest in the proposed bank
- A statement, in the case of the joint venture foreign bank has a holding bank and financial institution or a branch office or a representative office or liaison office in Nepal.
- A justification, in the case of the joint venture foreign bank already has a joint venture in any bank or financial institution in Nepal.

Nepal Rasta bank will provide the letter of intent to the applicants to establish a bank within the four months of period the promoters of the proposed commercial banks have had submitted all the necessary documents and after the study and analysis of such documents only if it would be appropriate to incorporate the bank. But in the present situation Nepal Rasta bank has hold to establish new commercial bank in Nepal.

For this, to obtain a the Letter of Intent from the Nepal Rasta Bank, the certified document stating that the prescribed amount has been deposited, should be produced. If the bank is not appropriate to establish, the applicant will be notified by such information. The Nepal Rastra Bank will also provide the required period to make the bank operation while granting the letter of Intent. If the bank will not come into the operation within such time period, it can cancel the letter of intent provided to such bank. Providing of letter of intent shall not be regarded as the approval to conduct the banking transactions. After obtaining the letter of intent, following additional documents should be produced to the Nepal Rastra Bank seeking the approval to conduct banking transactions. (Source: NRB Bulletin)

1. An Application
2. Technical service agreement in case of foreign joint venture
3. Certified documents stating that the committed amount by promoters has been deposited fully in the Nepal Rastra Bank.
4. The agreement document, if the bank premises are in rent, and the site plan of the bank building along with necessary layout required for bank operation.
5. Information on recruitments of Staffs
6. Statements on Software Application
7. Credit Policy Guidelines (CPG) of the Bank
8. Employees by-laws
9. Information on the entire physical infrastructure that is required to operate a bank.

The operating license will be provided only after the conformation that all the statements and documents are complete and on the basis of physical infrastructure inspection report submitted by physical inspection team comprising of members from Bank Operations Department, Inspection and supervision Department and Information Technology Department of this Bank.

2.2.4 Existing Supervision relating to the Banking Sector:

Promotion of financial stability, development of safe and efficient payment systems, regulation and supervision of banking and financial system and the promotion of healthy and competitive financial system are some of the objectives of functioning of Nepal Rastra Bank. To attain the above objectives Section 84 of the Nepal Rastra Bank Act 2002 has entrusted Nepal Rastra Bank with the necessary powers to perform inspection and examination of any commercial banks or obtain necessary information for the purpose of supervision of the commercial banks. Currently the Bank Supervision Department in Nepal Rastra Bank carries out the function of supervision of all commercial banks in Nepal. Since foreign banks have their presence only in the form of Joint Venture establishments that is in collaboration with the local entrepreneurs Nepal Rastra Bank supervises foreign establishes in the same manner as it supervises other local banks. For the purpose of supervision, it required to prepare annual supervision plan for onsite examinations as well off site surveillance of the commercial banks. The same is to be approved by the Governor of the Bank. The Bank Supervision Department carries out both onsite examinations as well as off site surveillance of the commercial banks as per its annual supervision plan. (Source: NRB Bulletin)

a. Onsite inspection

The Bank Supervision Department can carry out onsite examination of commercial banks in Nepal by sending examination team to the commercial banks. Onsite examination can be corporate level inspection covering all aspects of functioning of commercial banks or can be targeted branch level inspection.

The Department also performs follow up of the earlier examination reports by visiting the branches to ensure necessary compliance of the NRB instructions. If information as to functioning of commercial banks against the interest of depositors' or some serious irregularity is received, the Department can perform special on site examination in such cases. The Bank Supervision Department is required to carry out corporate level examination of all commercial banks at least once in a year as per its annual plan but the gap between two inspections at any time should not exceed two years. As per current policy of the Department, corporate examination of all commercial banks is carried out once in a year. For the guidance of the onsite examination, an "On site inspection manual" is in force. On completion of the onsite examination examiners perform CAMELS rating of the bank which is exclusively used for the supervisory purpose and is not revealed to general public. (Source: NRB Bulletin)

b. Off site supervision

Off site supervision is a supplement to the onsite examination and is designed to act as an early warning system to identify banks with potential problems so that appropriate policies and action can be determined. Off site division of the Bank Supervision Department is carried out in a quarterly frequency as well as annual off site review based on the reports and returns submitted by the commercial banks. (Source: NRB Bulletin)

c. Quarterly offsite review

Off site division reviews performance of all commercial banks on quarterly basis which is submitted to the Governor of Nepal Rastra Bank. Such review involves assessment of the financial information as well as compliance of applicable rules regulations and legal provisions including NRB directives. Based on the review internal rating which is called CAMELS Offsite Rating (COR) is also assigned to the banks.

d. Annual Balance sheet review:

The Department's off site division reviews the balance sheet of the commercial banks at the end of each financial year and issues necessary instructions based on such review this is then published in their annual report. In the course of such review the auditor's report, audited financial statements, long form audit report preliminary, audit report and banks reply thereon are studied. Based on the review of above report consisting of the review of financial performance, compliance with Nepal Rastra Banks directives and applicable legal provisions, adverse observations of the auditors and other significant findings is prepared and necessary instructions are issued to the bank thereon.

2.2.5 Policy Provision for Opening Branch Office by Foreign Bank or Financial Institutions in Nepal

Whereas, it is expedient to grant license to a foreign bank or financial institution for financial transaction having established its branch office in Nepal upon taking into account the goodwill and reputation of such a bank or financial institution in order to strengthen and consolidate the economy by mobilizing sufficient national and foreign capital for development of infrastructure of social and financial sectors within the country in view of contributing to the banking development by enhancing efficiency of the banking and financial system of the country. Now, therefore, in line with the commitment made by Nepal under the financial service sector of the General Agreement on Trade in Services while entering into the World Trade Organization on 23 April 2004 as the 147th member, this Policy Provision has been brought into force pursuant to Section 34 of the Banks and Financial Institutions Act, 2006 for branch office to be opened in Nepal by a foreign bank and financial institution willing to carry on wholesale banking transaction from 1 January 2010.

I. Short title and commencement:

(a) This Policy Provision may be cited as the "Policy Provision for Opening Branch Offices by Foreign Bank or Financial Institutions in Nepal, 2010".

(b) This Policy Provision shall come into force on the date of its approval.

II. Definition

Unless the subject or the context otherwise requires,

(a) "Foreign bank or financial institution" means the bank and financial institution having its head office in a foreign country upon being incorporated under the foreign law.

(b) "Branch office of foreign bank based in Nepal" means the office established by the foreign bank or financial institution in Nepal for the purpose of operating wholesale banking transaction pursuant to Nepal law upon obtaining approval from the Nepal Rastra Bank.

(c) "Wholesale banking transaction" means the large scale banking transaction as prescribed in No. 9 of this Manual to be carried on at the corporate level.

(d) "Banking service" means the large scale banking service.

(e) "Licensed" means the bank and financial institution licensed by the Nepal Rastra Bank to operate banking transaction in Nepal.

(f) "Home country" means the home country where the foreign bank or financial institution licensed to operate banking transaction in a foreign country upon having established its central office therein is based in.

III. Permission to be obtained:

(a) The foreign bank or financial institution willing to operate branch office in Nepal must compulsorily obtain approval from the Nepal Rastra Bank.

(b) No foreign bank or financial institution shall operate branch office in Nepal without obtaining approval from the Nepal Rastra Bank.

(c) The foreign bank willing to open branch office in Nepal must produce no- objection letter and a letter indicating regulation and supervision to be made in an integrated manner from the central bank or licensing authority of its home country. Moreover, the bank or financial institution must produce a letter indicating that its company has been rated at least BBB or Baa or equivalent to the same for three consecutive years. (Source: NRB)

Note: For the purpose of rating at the international level, it means that it has been rated BBB by the Standard & Poor and Baa by the MOODY'S or rated equivalent to the same.

2.2.5.1 Application to be made:

(a) The foreign bank or financial institution willing to operate branch office in Nepal must submit an application to the Bank and Financial Institutions Regulation Department, Nepal Rastra Bank, accompanied by the documents and fee as prescribed in Schedule 1 of this Manual, for prior approval.

(b) The Nepal Rastra Bank shall make necessary studies of the documents, received in this context, pursuant to the prevailing policy provision and the law in force.

(c) The foreign bank or financial institution must submit an application for establishment of one branch office for the first time, in order to operate branch office in Nepal.

(d) In addition to the documents prescribed along with the application, an original voucher depositing in the US Dollar five per cent of the assigned capital structure as prescribed in No. 5 in the designated account of the Nepal Rastra Bank must be produced.

(e) The Nepal Rastra Bank shall, if it determines appropriate and reasonable upon making studies of the received documents, grant a letter of intent to operate branch office in Nepal.

(f) While granting the letter of intent, the Nepal Rastra Bank may specify terms and conditions.

(g) The applicant must, within six months after obtaining the letter of intent, submit an application to the Nepal Rastra Bank for approval for operation of banking transaction upon completing the documents as prescribed by NRB and fulfilling the terms and conditions.

(h) Upon obtaining approval from the Nepal Rastra Bank, the applicant must obtain approval from/get registered with the concerned government authorities pursuant to the Nepal law in force.

(i) Attested copy of the decision of the Board of Directors must be produced indicating commitment that if the license of the central office of the bank based in the home country is revoked & it is not allowed to carry on transaction in Nepal, the central office of the bank based in the home country shall be liable to pay & settle all the liabilities within & outside Nepal arisen while operating branch office of the foreign bank.

a. Capital structure:

The assigned capital must be thirty million US Dollar in minimum to operate branch office in Nepal by the foreign bank.

b. Remittance of assigned capital:

(a) The cash amount equivalent to the rest 95 per cent must either be deposited in the designated account of the Nepal Rastra Bank or the Bank guarantee must be produced within thirty days after obtaining the letter of intent from the Nepal Rastra Bank. Provided, however, that, if the bank guarantee is to be produced, the bank guarantee equivalent to the said amount having validity for at least one year from the bank which has been rated BBB or Baa or at least equivalent to the same for at least three consecutive years under the international rating acceptable to the Nepal Rastra Bank may be produced.

(b) Prior to obtaining license for financial transaction, voucher depositing the assigned capital designated by the Nepal Rastra Bank in the designated account of this Bank must be produced.

(c) At the time of granting license to operate financial transaction, the assigned capital deposited in the Nepal Rastra Bank shall be released authorizing the branch office of the foreign bank or financial institution to use it.

(d) If a foreign bank or financial institution withdraws its application for any reason, the amount as referred and above shall be refunded.

c. Extension of branch office:

The aforesaid 30 million US Dollar shall be valid for one branch office & thereafter, additional 5 million US Dollar shall be needed for each new branch office.

d. Rating shall be required:

(a) The foreign bank which has been rated more than or at least BBB or Baa or equivalent to the same from the international level credit rating agencies may only operate branch office in Nepal.
(b)For the purpose as above, rating the concerned foreign bank by the international level credit rating agencies such as MOODY's, Fitch and Standard & Poor shall only be recognized for the time being.

e. Provision on banking transaction and other service:

(a) The foreign bank or financial institution may only carry on wholesale banking transaction relating to deposit, loan, credit, other service and facilities through the branch office in Nepal.
For the purpose as above, wholesale banking transaction and other services mean the following transactions:-
(i)Acceptance of deposit and collection of financial resource:

(1)It shall collect at least one hundred million rupees once from the corporate body/associations registered in Nepal as fixed deposit for more than one year.
(2) It may collect at least one hundred million rupees once from the corporate body/associations by issuing certificate of deposit (CDs) for more than one year.
(3)In the case of collection of financial resource, it may issue commercial paper (CPs) requiring per person/association to purchase such a paper worth one hundred million rupees or more.

(ii) Loan, credit / facilities:

(1)It may lend loan to the public corporation, enterprise, public/private company and corporate body/associations for the project relating to physical infrastructure development worth at least three hundred million rupees or more for a period more than one year subject to the single borrower's credit limit. The computation of the single borrower's credit limit shall be made on the basis of core capital of the principal company. Moreover, the consortium loan must also be lent subject to the said limit.

(2) It may lend loan/channel investment for the projects worth three hundred million rupees or more including on all the production based industries in economic sector of the country, all the facilities relating to development under physical infrastructure sector such as hydro- power, hydro-power transmission line, cable-car, road and railway, tunnel way, airport, construction of extended and multifamily residential building, irrigation, mine, etc., all the facilities relating to the social and service sectors such as hospital, school, college and university, all the businesses relating to tourism and communication sector, and lease financing of aeroplane, equipment and machine to be operated from the fuel (thermal plants).

(3) Commercial transactions including letter of credit, guarantee and financial instruments/derivative instruments worth three hundred million rupees or more in convertible foreign Currency subject to the revealing provisions. However, in the case of the projects where the branch office of foreign bank or financial institution has on its own lent loan, credit and provided other facilities, this limit shall not be applicable.

(4) No loan, credit and any other facilities shall be allowed to be channeled for any purpose of sale / purchase of land, margin lending /loan against shares, gold and silver and against the collateral of financial securities.

(5) It may lend loan for the deprived sector under poverty alleviation program if it so wishes. For this purpose, the minimum credit limit of three hundred million rupees shall not be applicable.

(6) It may provide financial service and facilities as are only required to the project for which it has lent loan. No credit limit shall be applicable to the transaction of such service and facilities.

(iii) Investment:

(1) Investment may be made in the securities having maturity for one year or more issued by the Government of Nepal, Corporations run by the Government of

Nepal, Nepal Rastra Bank, bank and financial institutions licensed by the Nepal Rastra Bank.

(2) It may purchase and sell money market instruments such as Repo, Reverse Repo and operate interbank transactions for fifteen days and no credit limit shall be applicable to this transaction.

(iv) Service:

(1) It may provide financial consultation service such as merger and acquisition fund management to be provided to the corporate entity.

(2)It may open agent/agency account in a local bank for transaction relating to the international trade/service only.

(3)It may invest in restructuring of problem bank/financial institution or as the strategic investment partner upon obtaining approval from the Nepal Rastra Bank.

(4) The branch office of foreign bank shall not be allowed to operate such an account which issues cheque committing to on–demand payment in Nepal.

(5) Foreign bank or financial institution which has incorporated a bank or financial institution in Nepal as the subsidiary company holding joint or cent percent shares shall not be allowed to open branch, sub- branch or agent or contact office within Nepal.

2.2.5.2 Submitting the proof of authenticity:

The foreign bank or financial institution operating branch office in Nepal must produce the following documents for its authenticity.

(a) The foreign bank or financial institution operating branch office in Nepal must produce the documents which prove that it has been licensed to carry on financial transactions pursuant to the law in force of its home country and it has also been legally recognized upon being registered accordingly.

(b) The foreign bank or financial institution operating branch office in Nepal must have received a letter of approval or the letter of intent for operation of branch office as well as for remitting necessary capital to Nepal as designated by this Bank from the competent authority of its country.

Regulation and supervision:

(a) The Nepal Rastra bank and the regulatory and supervisory authority of the home country shall be vested with the powers to regulate and supervise all the transactions of the branch offices of the foreign bank. The concerned foreign bank or financial institution shall perform the role of facilitator for exchanging memorandum of understanding, letter of exchange/agreement relating thereto between the Nepal Rastra Bank and the regulatory and supervisory authority of the home country.

(b) The directives, circular, guidelines, etc. issued to the bank and financial institution licensed by the Nepal Rastra Bank shall also be applicable to the branch office of the foreign bank or financial institution (unless otherwise mentioned therein).

(c) If any special arrangement or concession is to be made for the branch office of the foreign bank or financial institution in respect of the issued directives, circular and guidelines, the Nepal Rastra Bank may do so.

(d) As the Nepal Rastra Bank shall also have the jurisdiction over the branch offices of the foreign bank or financial institution just like other licensed bank and financial institution of Nepal, the act of off- site and on-site supervision shall be regularly and periodically carried out pursuant to the prevailing system and directives of the Nepal Rastra Bank.

(e) As the supervision of the branch offices of the foreign bank or financial institution is usually made pursuant to the provision as laid down in the Basel Committee on Banking Supervision, the annual report of the concerned foreign bank or financial institution must also be forwarded to the Nepal Rastra Bank.

(f) It shall be the duty of the branch office of the concerned foreign bank or financial institution to observe the directives issued by the Nepal Rastra Bank in the course of regulation and supervision.

(g) If the policy directives of the Nepal Rastra Bank and the Nepal law in force are not observed, an action shall be taken and punishment and fine shall be imposed pursuant to the prevailing national and international rules and practices.

2.2.5.3 Branch Office In-charge to be responsible:

(a) The Branch Office In-charge of the bank based in Nepal and the concerned bank as well shall be held accountable and liable to the transactions carried on by the branch office of the foreign bank or financial institution.

(b) The Branch Office In-charge of the foreign bank or financial institution may leave Nepal only after informing the Nepal Rastra Bank.

2.2.5.4 Additional approval to be obtained:

(a) The branch office of the foreign bank or financial institution must obtain approval from the concerned Department/Office of the Nepal Rastra Bank for carrying on transaction in foreign currency in Nepal.

(b) If the branch office of the foreign bank or financial institution wishes to repatriate the amount out of the profit earned in Nepal to the country where its head office is based in upon paying tax and fee and settling other liabilities, if any, pursuant to the law in force, it may repatriate such an amount upon obtaining approval from the Nepal Rastra Bank.

(c) If the branch office of the foreign bank or financial institution closes its transaction or if it returns back upon closing the branch office, it must obtain necessary approval from the Nepal Rastra Bank and the concerned authority of the Government of Nepal.

2.2.5.5 Submission of financial statements:

(a) The branch office of the foreign bank or financial institution must submit financial statement to the Nepal Rastra Bank in the format as prescribed by this Bank.

(b) The branch office of the foreign bank or financial institution must publish the statement of its financial transaction in the format as prescribed by the Nepal Rastra Bank in the national daily newspaper for the information of the general public within 15 days after expiry of each trimester pursuant to the Nepali calendar.

(c) The branch office of the foreign bank must produce financial statements to be produced to the Nepal Rastra Bank in Nepali currency on the basis of calendar of the Nepali fiscal year.

2.2.5.6 Revocation of license and settlement of assets and liabilities:

(1) The license of the branch office of foreign bank operated in Nepal may be revoked in the following circumstances:

(a) If the Nepal Rastra Bank Act, Banks and Financial Institutions Act and Rules and Bye-laws issued there under are not found to be observed,

(b) If the manuals, directives, circulars, procedures, orders, etc. issued by the Nepal Rastra Bank from time to time are not found to be observed,

(c) If the central office of the bank based in the home country is dissolved / liquidated.

(2) The settlement of assets and liabilities and forfeiture of assets of the branch office of the foreign bank of which license has been revoked shall be made as follows:-

(a) If the branch office of the foreign bank is not allowed to carry on transaction in Nepal upon revocation of its license as referred to in sub-section (1) above, it shall be the responsibility of the central office of the bank based in the home country to pay and settle all the liabilities arisen within and outside Nepal while operating branch office of that foreign bank or financial institution.

(b) If it appears that it may take some time for payment and settlement of liabilities arisen in Nepal by the central office of the bank based in the home country in such a situation where the license is revoked, the Nepal Rastra Bank may also withhold assets of the branch office of the foreign bank immediately after revocation of license.

(c) The Nepal Rastra Bank shall release the assets withheld by it only after the central office of the bank based in the home country has paid and settled all the liabilities of the branch office.

(d) The Nepal Rastra Bank shall withhold all the assets of the branch office of the foreign bank immediately after the NRB came to know that the central office of the bank based in the home country is liquidated and the assets so withheld shall also be used for the purpose of payment and settlement of liabilities arisen in Nepal. (Source NRB Bulletin)

2.2.5.7 Alteration may be made:

The Nepal Rastra Bank may make alteration and amendment to this Policy Provision as and when so required.

2.2.6 Format Development:

As mentioned earlier, the primary objective is for highlighting the necessary rules and regulations with regard to foreign bank branching in Nepal. To facilitate attaining this objective, a standard format has been developed. The final version of this is presented below.

Table 2.1

Highlights standard format of rules and regulation of foreign bank in Nepal.

No.	Description
1	Country description with respect to the banking sector
2	In country legal provisions regarding the foreign bank branches. Are there provisions regarding establishment of the foreign branches, the host supervisory authority of the branches, onsite inspections by the parent authorities etc.?
3	In country licensing policies and procedures regarding foreign bank branches: What are the required documents to be submitted with application? Is there a minimum rating requirements of the parent bank? What are the condition as to approval of home supervisor before granting license etc.
4	In country regulation and directives regarding foreign bank branches additional to domestic financial institutions such as minimum capital requirements. Is there understanding and coordination between host authorities regarding level of support that will be available in case of crisis from parent bank/supervisory authorities including study of an example for effect of failure of bank and crisis management by the host countries?
5	In country monitoring and supervision regarding foreign bank branches. Is there clear division and coordination of responsibility of supervision foreign branches between home authorities and host authorities etc.
6	Experiences [in Supervision] on Central Banks/Monetary Authorities in regard to foreign bank branches

Source*: TF1 decision (Meeting No 6 dated July 19, 2004) Source of Data: The data have been provided from official sources. The data for the SAARC countries have been throughout SAARCFINANCE, a regional network of Central Bank Governors and Finance Secretaries.*

2.2.7 Country Analysis:

The country analysis proceeds along the lines of the format described above with a matrix for vertical comparison given at the end. The two SAARC countries (India and Sri Lanka) are first given followed by two SEACEN countries (Indonesia and Thailand). These are:

1. India

A. A Brief Introduction of India: Until recently, foreign banks were permitted to have commercial presence in India only through branch operations. However, the Government of India has announced, in the Union Budget, that foreign banks will be allowed commercial presence either through the branch route or subsidiary route. Existing banks will be given the option to convert their branches in case so desire. Presently there are 41 foreign banks in India with 323 branches (as of April 30, 2012). Foreign banks have also set up Representative Offices in India. Thus, 62 banks have presence in India either through branches or Representative Offices. (Source: http://rbidocs.rbi.org.in/rdocs/Content/pdfs/71207.pdf)

B. In country legal provisions regarding the foreign bank branches: The branches of foreign banks are subject to the same prudential norms in regard to asset classification, income recognition and provisioning as Indian banks and the banks have to comply with the instructions issued by the RBI from time to time. The regulations governing commercial banking in India are equally applicable to both foreign and domestic banks. However, foreign banks have business presence mostly in urban centers where the client profile and the service needs are different from those in semi-urban/ rural etc. centers. Thus, the nature of service provided by foreign banks, to some extent, differs from Indian banks. In lieu of agricultural finance, the foreign banks are required to extend export credit as part of priority sector stipulation. Further the stipulation of minimum 25% of branch presence in rural areas is not applicable to foreign banks as most of the foreign banks been allowed to operate with very few branches in India, confined to metropolitan and urban centers. There are also provisions regarding onsite inspection by parent supervisory authorities: A foreign bank operating in India, either having a solitary branch or number or branches under an Indian Head Office, is treated as an independent bank, and supervision and monitoring of such bank is done by the Reserve Bank of India (RBI) through (i) on-site inspection and (ii) off-site surveillance.

On-site inspection is conducted by RBI in its Annual Financial Inspection of banks. It is inspected as a banking company and all the supervisory prescriptions of RBI for foreign banks are applicable to them. The on-site inspection of a foreign bank is done following the CALCS model (i.e. Capital adequacy, Assets quality, Liquidity, compliance & system and Controls). The performance of a bank in each individual area under CALCS is assessed during the inspection and accordingly supervisory rating is awarded, which is a scale of 'A' through 'D' according to descending order of performance. The findings of the inspection are communicated to the bank's Head Office in India with an instruction to place the same before the Local Advisory Board (LAB) and its Head Office in within stipulated time frame, with the approval of its Local Advisory Board (LAB). Subsequently, the Chairman/CEO of the concerned bank in India is called for a supervisory discussion in RBI and finally, a memorandum, containing the RBI observations and CEO's comments, is placed before the Board for Financial Supervision (BFS) for further directions. Apart from the inspection findings, if there is any other serious supervisory concern, viz. penalty imposed on the bank by RBI, a letter of displeasure is issued to the bank by RBI with the same is conveyed to the home supervisor as well as the Head of the concerned bank. Apart from the on-site inspection, monitoring of foreign banks/branches is also done through off- site surveillance system. Under the system, the banks are under obligation to submit prescribed returns (DSB returns - tranche I & II) at quarterly (in certain cases monthly) intervals to RBI. There are five returns in the first tranche, containing capital, assets, liabilities, capital market exposure, etc. and four returns under the second tranche, containing data on position of structural liquidity and interest rate sensitivity. The returns are used as a tool for supervising the performance of a bank on a continuing basis, since the on-site inspection is concluded once in a year. Moreover, the credibility of the date submitted by a bank through the DSB returns is verified during the on-site inspection.

C. In country licensing policies and procedures regarding foreign bank branches: There are a number of required documents to be submitted by a foreign bank for opening a foreign bank branch. RBI scrutinizes the applications with reference to the following: 1) Financial soundness of the parent foreign bank, 2) International and home country ranking of the parent foreign bank, 3) Rating of the foreign bank by international rating agencies, 4) Quality and spread of its international presence, 5) Economic and political relations between India and the home country of the foreign bank, 6) The foreign bank should be under consolidated supervision of the home country regulators and RBI should be satisfied with the standards of supervision of the home country regulator, 7) The country of incorporation of the foreign bank should not be discriminated against by Indian banks, and 8) The foreign bank must obtain the home country regulator's approval for opening the branch.

Though no minimum rating requirements have been prescribed for the applicant foreign bank but the applicant is required to specify ranking in home country and global ranking and credit ratings by international credit rating agencies. Further, the applicant is required to submit: (i) the certificate from supervisory authority that the applicant bank is duly authorized as a bank is of good standing and it is under consolidated supervision and a copy of the approval/authorization given by the home country supervisor/regulator permitting to open a branch in India. Further, the procedures for assessing capacity for & performance of consolidated supervision by home country supervisor.

There is no specific information regarding the procedures followed by RBI to assess capacity and performance of consolidated supervision by the host authority, however the applicant is required to submit the certificate from supervisory authority that the applicant bank is duly authorized as a bank, is of good standing and it is under consolidated supervision. This is essential to understand the structure of corporate group to ensure adequacy of consolidated supervision. Additionally, applicant is required to submit the Financial Position including: Highlights of financial position of the bank based on last three years financial statements Capital adequacy ratio as per BIS (Bank for International Settlement) standards indicating Tier-I and Tier II capital separately Ranking in home country and global ranking and Credit ratings by international credit rating agencies.

D. The main regulation is regarding capital requirement since 1993, a foreign bank opening the first branch in India is required to bring in US $25 million as an assigned capital. The capital requirement is stepped up to US $ 20 million when the second branch is opened and further to US $ 25 million when the third branch is opened. Permission to open second and subsequent branch is granted taking into account, *inter alia*, the policy prevailing at that time. Second branch is allowed after watching performance of the first branch. It is ensured that the required capital has been brought before commencement of business in India. The unimpaired capital has to be maintained on an ongoing basis.

E. Monitoring and supervision system regarding foreign branches: foreign bank operating in India, either having a solitary branch or number or branches under an Indian Head Office, is treated as an independent bank, and supervision and monitoring of such bank is done by the Reserve Bank of India (RBI) through (i) on-site inspection and (ii) off-site surveillance.

On-site inspection - RBI conducts on-site Annual Financial Inspection of banks and is inspected as a banking company and all the supervisory prescriptions of RBI for foreign banks are applicable to them. The on-site inspection of a foreign bank is done following the CALCS model, under which mainly the areas, viz. capital adequacy(C), Assets quality (A), Liquidity position (L), Compliance to RBI guidelines/instructions (C) and Systems obtaining in the bank (S) are examined. The performance of a bank in each individual area under CALCS is assessed during the inspection and accordingly supervisory rating is awarded, which is a scale of 'A' through 'D' according to descending order of performance. The findings of the inspection are communicated to the bank's Head Office in India with an instruction to place the same before the Local Advisory Board (LAB) and its Head Office in within stipulated time frame, with the approval of its Local Advisory Board (LAB). Subsequently, Chairman/CEO of the concerned bank in India is called for a supervisory discussion in RBI and finally, a memorandum, containing the RBI observations and CEO's comments, is placed before the Board for Financial Supervision (BFS) for further directions. Apart from the inspection findings, if there is any other serious supervisory concern, viz. penalty imposed on the bank by RBI, letter of displeasure issued to the bank by RBI, any infringement of legal provisions, bank coming under Prompt Correct Action (PCA) in terms of low CRAR or low Return on Assets or high NPAs, liquidity crisis, major fraud perpetrated, etc., the same is conveyed to the home supervisor as well as the Head of the concerned bank.

Off-site surveillance: Apart from the on-site inspection, monitoring of foreign banks/branches is done through off-site surveillance system. Under the system, the banks are under obligation to submit prescribed returns (DSB returns- tranche I & II) at quarterly (in certain cases monthly) intervals to RBI. There are five returns in Tranche I, containing capital, assets, liabilities, capital market exposure, etc. and four returns under Tranche II, containing data on position of structural liquidity and interest rate sensitivity. The returns are used as a tool for supervising the performance of a bank on a continuing basis, since the on-site inspection is concluded once in a year. Moreover, the credibility of the date submitted by a bank through the DSB returns is verified during the on-site inspection. (Sources: NRB Bulletin)

A. Sri Lanka

A. Sri Lanka is a small island in the Indian Ocean with a land area of 25,000 square miles and a population of 20.8 million. Topographically the island consists of a south central mountainous region which rises to an elevation of 2,502m and is surrounded by broad lowland plains at an elevation of 0-75 m above sea level. Despite abundant natural resources, Sri Lanka remains a poor country with a per capita gross national income of about $5600 in 2011. (Source: http://en.wikipedia.org/wiki/Sri_Lanka). Since 1977, Sri Lanka has been trying to open up its economy and aid the development of the private sector. But the process of reform has been undermined by the civil war that began in the early 1980s and continues to the present day. The financial sector reforms in Sri Lanka have been implemented gradually over the last two and half decades. During late 1970s and early 1980s, the paces of reforms were rapid but after 1983 some slowdown was evident as civil unrest. The most comprehensive financial sector reform that have been introduced since the latter part of 1977 have been to open up more economic activities to the private sector, the freeing of interest rate from administrative controls, relaxation of exchange controls, implementation of industrial reforms including authorization of new financial institutions, placing greater emphasis on market orientation in monetary management and credit allocation, and strengthening of the legal, accounting and regulatory framework of financial institutions. B. While there is no definition of a foreign bank branch in Sri Lanka, there is the requirement that it should be a body incorporated outside Sri Lanka or formed in pursuance of any statute of a foreign country, royal charter or letters patent. There primary provisions regarding licensing and registration authorities is that a branch of foreign bank can carry on the banking business in Sri Lanka only with a license issued by the issued by the Monetary Board with the approval of the Minister of Finance. While there is not provision found regarding reference to the host supervisory authorities, it is required that license be obtained from the Bank Supervision Department of the Central Bank of Sri Lanka.

C. The application has to be obtained from the Bank Supervision Department of the Central Bank of Sri Lanka. The application has to be accompanied by the following: A certified copy of the Certificate of Incorporation A certified copy of the Memorandum and Articles of Association of the Company A copy of the latest audited balance sheet and profit and loss account of the company with annual reports for the preceding 3 years A feasibility study to the establishment of a branch in Sri Lanka stating the objectives of establishing a branch in Sri Lanka and the manner in which it would benefit Sri Lanka A. certified copy of resolution passed B. the Board of Directors of the bank authorizing the establishment of a branch in Sri Lanka A certificate from the Monetary Authority of the country where the Head Office of the bank is located stating that permission has been granted for the bank to establish a branch in Sri Lanka A written undertaking supported by a resolution passed by the Board of Directors, stating that the company or body corporate shall, on demand by the Central Bank of Sri Lanka, provide such funds as may necessary to cover all obligations and liabilities incurred by the branch in carrying on banking business in Sri Lanka any other particulars or documents that may be required by the monetary Board. Although there is no minimum-rating requirement of the parent bank, the applicant is required to specify the Bank's ranking in terms of capital, deposits & total assets in home country. Applicant is required to submit a certificate issued by the relevant monetary authority of the country stating that permission has been granted to establish of a branch in Sri Lanka. However, the procedure for assessing capacity for and performance of consolidated supervision by home country supervisor is not available. Likewise, there is no specific pre condition as to the signing of an MOU with the host supervision authority for establishment of foreign branch. However, understanding structure of corporate group is essential to ensure adequacy of consolidated supervision. Application format requires the submission of list of shareholders of holding more than 10% of the issued shares of the Bank. Further, no information as to the structure of corporate group as a whole is found to have been obtained.

Applicant is required to submit its detailed business plan including projections of Deposits, Lending and Profit/Loss or the first three years and also stating the objectives of establishing a branch in Sri Lanka and the manner in which it would benefit Sri Lanka. Likewise, an amount of Rs 250,000/- per annum fee will be charged to foreign bank branched and off-shore banking business with an amount of Rs 150,000/- per annum fee will be charged to those who receive license for performing off-shore banking business only.

D. In country regulation and directives regarding foreign bank branches and difference if any from the regulations applicable to locally established banks. A difference relates to capital requirements namely, A branch of the foreign bank shall have an assigned capital of not less than Rs. 3 Billion the head office of the foreign bank shall also remit to Sri Lanka a sum of US $ 2 million as determined by ht Monetary Board in respect of branches carrying on domestic banking or both domestic and off-shore banking business for off-shore banking business only, a sum of US $ 0.75 million shall be remitted to Sri Lanka as determined by the Monetary Board. (Sources: NRB Bulletin)

B. Indonesia

A. A Brief Introduction of Indonesia - Indonesia is a Southeastern Asia, archipelago between the Indian Ocean and the Pacific Ocean with an area of 1,919,440 sq km and GDP per capita of $3509 (2011)

(Source: http://en.wikipedia.org/wiki/ListofcountriesbyGDP(nominal)percapita) The Dutch began to colonize Indonesia in the early 17th century the islands were occupied by Japan from 1942 to 1945. Indonesia declared its independence after Japan's surrender. Indonesia, a vast polyglot nation, has restored financial stability and pursued sober fiscal policies since, the Asian financial crisis, but many economic development problems remain, including high unemployment, a fragile banking sector, endemic corruption, inadequate infrastructure, a poor investment climate, and unequal resource distribution among regions. Several significant developments have taken place, including privatization of banks, move towards establishing a financial safety net, and amendments to the related Laws, providing for greater oversight of its functions. However, various key issues remain to be addressed, including (i) improving governance of state banks and financial institutions (ii) enhancing financial intermediation, to support real sector growth besides just consumer lending (iii) strengthening capital markets to encourage financing of long-term corporate growth (iv) formulating a sound implementation plan for the Indonesian banking architecture and (v) consolidating financial sector supervision and strengthening the governance of oversight institutions.

B. In country legal provisions regarding the foreign bank branches. The Republic of Indonesia has issued decree (number 24 of 1999) concerning provisions and procedure for the establishment of branch offices, sub-branch offices and representative offices of foreign banks. It has defined foreign bank, branch office, sub-branch office, and representative office categorically. Foreign banks may only establish branch office, sub-branch office and representative office with the approval of the Board of Managing Directors of Bank Indonesia (Central Bank). A representative office is not allowed to conduct banking operations. Any foreign bank that is intending to open branch banking should have a sound rating and reputation. Bank Indonesia may also consider other matters like the bank rating, level of fair competition among the banks, saturation level of number of banks and equitable distribution of national economic development. The form of legal entity of a branch office or a representative office of a foreign bank shall be in accordance with the form of legal entity of its head office. Thus, it is clear that any branch of foreign bank conducting banking business has not to be locally incorporated as legal subsidiary or joint venture. Such foreign bank branches should comply with all prevailing laws and regulations of host country. They shall have to comply with capital requirement as determined by Bank Indonesia. Office of such branch may only be closed with the approval of Central Bank.

C. In Indonesia, the general conditions for a Branch Office to conduct business in Indonesia is that it comply with all prevailing laws and regulations in the country. Further a foreign bank may only establish a Branch Office pursuant to approval of the Board of Managing Directors of Bank Indonesia. With regard to the issuing of a license for establishment of offices by a foreign bank, Bank Indonesia shall consider, among others: the bank rating, level of fair competition among banks, saturation level of number of banks, and equitable distribution of national economic development. The granting of a license shall take in two stages: approval in principle and operating license.

Foreign bank intending to open foreign bank branch shall submit an application to Bank Indonesia Documents required to be submitted along with the application form are copy of deed of incorporation of the Bank legal entity, including Articles of Association validated by the competent authority in the country of origin of the Bank head office, operating license of the Bank issued by the banking authority in the country of origin of the Bank head office rating and reputation of the Bank and ranking among banks in the world by total assets statement of no objection to the establishment of a Branch Office in Indonesia, issued by the banking authority in the country of the head office, latest financial statement consolidated financial statement for the last three years, audited by an independent international public accountant copy of documents concerning bank rating for the last 2 (two) years, list of nominees to the Branch Office Management, with required documents attached, planned organizational structure, branch Office work plan for the first year, containing feasibility study, business plan, planned personnel requirements, monthly cash flow and balance sheet projections, list of customers/prospective customers domiciled in Indonesia, list of correspondent banks in Indonesia, proof of initial deposit of Operating Funds amounting not to less than 30% (thirty percent) of the Operating Funds.

In addition for the application for operating license for a Branch of a Foreign Bank following documents are required: organizational structure and working systems and procedures, including composition of personnel proof of operational readiness including list of fixed assets and inventory, proof of ownership, control, or leasing agreements for office premises etc. copy of deposit slip to the Board of Managing Directors of Bank Indonesia and as proof of payment in full of the required Operating Funds. Further, a foreign bank intending to open a branch office should have sound rating and reputation according to the rating issued by leading international rating agency such as Mood'y, Standard and Poor's or other international rating agency of similar standing of not less than “A” or the equivalent. Also the bank should rank among the 200 (two hundred) largest banks in the world by total assets.

The branch is required to provide a feasibility study of the branch operations which include review of the financial standing and operating performance of foreign bank on individual as well as consolidated basis is made. Applicant is required to submit its detailed business plan includes business operation plan, detailed organizational structure to establish feasibility of the project including the cash flow and balance sheet projections for one year. Further, the employment of an expatriate at a Branch Office or Representative Office shall comply with the prevailing manpower regulations in Indonesia. (Sources: NRB Bulletin)

C. Thailand

A. Brief Introduction of Thailand: Thailand is located in southeastern Asia, bordering the Andaman Sea and the Gulf of Thailand, southeast of Burma with an area of 513,120 sq. km and population of 69,518,555 (2011). The estimated GDP was 5394 dollars in 2011.

(Source: http://en.wikipedia.org/wiki/ListofcountriesbyGDP(nominal)percapita)

B. In country legal provisions regarding the foreign bank branches: In Thailand, the Ministry of Finance has published notification in the Gazette regarding foreign bank branches. This notification is issued under Commercial Banking Act. It has categorically defined foreign bank, branch of foreign bank and subsidiary of foreign bank. A foreign bank may create a subsidiary as a public limited company with equity participation not less than 95 percent under the Thai law. A foreign bank may establish its Branch Office or Subsidiary pursuant to the approval of Ministry of Finance after reviewing the application by the Committee appointed in accordance with the Financial Sector Plan by the Minister. A foreign bank intending to open its branch office in Thailand should be a large and reputable with sound and strong operating performance. It shall have engagement in international banking with a good world ranking, good credit rating as evaluated by the competent authority, a sound financial structure and the net capital to risk- weighted assets ratio complying with the standards prescribed by the competent authority. A foreign bank intending to open its branch office shall have extensive experience and expertise in international financial business and whose central bank and supervisory authorities have good relations with the Bank of Thailand for fetching up the information of that bank in times of need. A commercial bank that is a subsidiary of foreign bank shall fulfill the conditions that it has established a branch in Thailand or has established an office of the international banking facility in Thailand and has a plan for merger, or acquisition or acceptance of the transfer of all or most of the assets and liabilities with at least one financial institution in accordance with the rules, procedures, and conditions prescribed by the Bank of Thailand for the purpose of establishing a subsidiary.

C. The licensing policies and procedures regarding foreign bank branches in Thailand start with the application process. Foreign bank intending to open foreign bank branch shall submit an application to Bank of Thailand Documents required to be submitted along with the application form namely consent letter of supervisory authority of home country of foreign bank, confirmation letter from foreign bank to guarantee, Confirmation that Home supervisory authority has applied prudential regulations to foreign banks as per international standards, information as to consolidated supervision regulations of the home country, information as to the existing international business facilities and credit flow in Thailand over last three years, two years annual reports with equity structure and financial statement, documents showing cooperation in economic development and financial knowledge (Technical services agreement etc.) detailed business plan and detailed Work plan.

Though no minimum rating requirements have been prescribed for the applicant foreign bank but the applicant is required to specify ratings of the bank by the Moody s, standard and poor and others in the application format and it is reviewed for decision making. Likewise, Applicant is required to submit the consent letter of the home supervisory authority along with application form.

There is no specific information is available as to the procedures followed by Bank of Thailand to assess capacity and performance of consolidated supervision by the host authority however it is observed that while approving the application, information as to the consolidated supervision regulations of home country is reviewed by the approving authority. Confirmation letter from home country supervisor as to it applies prudential regulations of international standards to its banks is obtained. MOU with the home supervisor regarding scope and conditions of sharing Such as Oversee/ instruct bank branch to comply with Thai rules and regulations financial and liquidity support and provide necessary information to home supervisory authority information: No specific pre-condition as to the signing of MOU with the host supervision authority is there for establishment of foreign branch. However, regulation do require that home Supervisory authority of the foreign bank should have good business relation with supervisory authority to request required information flow as a essential precondition for establishment of foreign branch. It is felt that an understanding of the structure for the corporate group is essential to ensure adequacy of consolidated supervision. Further, an application format requires the submission of list of the 10 largest shareholders of the foreign bank and assets of subsidiaries, branches network and representative offices. However no information as to the structure of corporate group as a whole has been obtained.

An applicant is required to submit detailed work plan to ensure which shall ensure compliances with the following conditions: having risk management system that can measure, monitor and control the level of various risks namely credit risk, market risk, liquidity risk, strategic risk, and operational risk including legal and reputation risk having clear policy on lending to business group or businesses that are related to the foreign bank branch, including information systems to monitor the outstanding loans and contingent liabilities and reason for difference if any to general lending having concrete internal control system in line of segregation of duties approval of credit lines, investment or various expenses have assets valuation system that covers customers interest payment principal payment, collateral valuation as per notification of Bank of Thailand having personnel with knowledge in banking and finance.

D. There are limited regulation and directives in Thailand regarding foreign bank branches and difference if any from the regulations applicable to locally established banks. For example, while information as to capital requirements as in relation to assets and contingent liabilities is awaited, branches are required to maintain assets in Thailand not less than 3000m baht. (Sources: NRB Bulletin)

2.3 Review of articles/ journals

Banks and Financial Institutions Act, 2063 (2006) Date of authentication and publication: 19 kartik 2063 (Sunday, 5 November 2006) Act number 10 of the year 2063 (2006) An Act Made to Amend and Consolidate Legislation Relating to Banks and Financial Institutions Preamble Whereas, it is expedient to amend and consolidate forthwith the prevailing legislation relating to banks and financial institutions and make it timely in order to promote the trust of the general public in the overall banking and financial system of the country and protect and promote the rights and interests of depositors, provide quality and reliable banking and financial intermediary services to the general public through healthy competition among banks and financial institutions, minimize risks relating to the banking and financial sector, boost and consolidate the economy of the State of Nepal by liberalizing the banking and financial sectors and make necessary legal provisions relating to the establishment, operation, management and regulation of banks and financial institutions.

In 2000 January, entitle “How does foreign entry affect domestic banking markets?” by Stijn Claessens, Asli Demirgüç-Kunt, and Harry Huizinga. Using 7900 bank observations from 80 countries for the 1988-1995 periods, this paper examines the extent and effect of foreign presence in domestic banking markets. We investigate how net interest margins, overhead, taxes paid, and profitability differ between foreign and domestic banks. We find that foreign banks have higher profits than domestic banks in developing countries, but the opposite is the case for developed countries. Estimation results suggest that a incS.reased presence of foreign banks is associated with a reduction in profitability and margins for domestic banks.

In 2006, entitle "Legal, Regulatory and Supervisory Provisions for foreign Bank Branches in Nepal" NRB publications entitle A report by Nepal Rastra Bank Task Force on Foreign Bank Branches and the Health and Stability of Nepal's Financial System On April 23, 2004, Nepal became the 147th member of the World Trade Organization (WTO). WTO covers international trade in goods and services. At the same time WTO also includes intellectual property rights within its domain. During the accession process, Nepal had made commitment in the Financial Services sector of the General Agreements on Trade in Services for allowing the operation of foreign bank branches in wholesale bank branching beginning from January 1, 2010. Nepal Rastra Bank – the central bank of Nepal - is aware that this multilateral commitment will have a significant impact on the health and stability of the domestic financial system. In this context, the high level committee on WTO matters at the Bank has taken this commitment very seriously. The members of this committee are the Deputy Governor, and heads of concerned departments, with the member-secretary being the Director in Research Department looking after the Special Studies Division. In order to collect information on regulating foreign bank branches and to ensure domestic financial stability, the high level committee established an interdepartmental taskforce "Foreign Bank Branches and the Health and Stability of Nepal's Financial System". The objective was to conduct a comparative study examining the experiences of selected countries in regard to rules and regulations for foreign bank branching and make recommendations keeping in mind the context of the Nepalese situation. In fulfilling this objective, it has produced this report entitled Legal, Regulatory and Supervisory Provisions for Foreign Bank Branches in Nepal, which provides comparative analysis of selected countries and important recommendations, in this regard. Nepal Rastra Bank (NRB), the Central Bank of Nepal, is eminently aware that the country's membership into the World Trade Organization (WTO) has an impact on the health and stability of the domestic financial system. During the membership accession process, Nepal had made commitment to allow foreign bank branches in the context of wholesale banking. This commitment will have an effect on the sustainable health and stability of the domestic financial system. In this regard, the Bank has shown intense interest on this commitment since NRB has been given the responsibility of ensuring domestic financial stability by the NRB Act 2002. (Source NRB Bulletin)

The following independent studies have been viewed during the study:

2.3.1 Foreign Context

In foreign context following independent case studies viewed during the study.

2.3.1.1 The Selective Incorporation of Foreign Legal Systems to Promote Nepal as an International Financial Services Center

In 1998, Howell E. Jackson entitle The Selective Incorporation of Foreign Legal Systems to Promote Nepal as an "International Financial Services Center" which is to be published in a slightly altered form in a forthcoming Oxford University Press symposium volume on Regulatory Reform, addresses a problem confronting many developing countries. How should a country draw on foreign legal systems to develop its own system of financial regulation? Although addressed to a specific problem confronting the Nepal developing a regulatory structure that will encourage foreign financial firms to establish international operations in Nepal the paper presents a general framework for analyzing the utilization of foreign legal models for regulatory reform, and then advocates a particular reform strategy for Nepal the selective incorporation of foreign legal systems into Nepalese law. Under the proposed system of selective incorporation, Nepal would first determine which foreign regulatory systems are sufficiently well-developed and well-administered to oversee foreign firms establishing international financial service operations in Nepal. Firms located in any of these selected jurisdictions could then apply to establish operations in Nepal without having to meet any additional Nepalese regulatory requirements, provided those applicant firms agreed to conduct their Nepalese operations in accordance with their home country's regulatory requirements and to submit their Nepalese operations to home country supervision. So, for example, a British bank might establish operations in Nepal and be supervised under the law of England, whereas a Swiss bank with Nepalese operations might comply with Swiss law. In this way, selected foreign legal regimes would be incorporated into Nepalese law. After exploring the surprisingly large number of precedents for selective incorporation, this paper considers the advantages and disadvantages of this approach to regulatory reform for both Nepal and foreign financial firms. The paper then considers a number of possible objections to this approach, including the potential for inadequate supervision of Nepalese operations, the implications of the approach for countries whose laws are incorporated into Nepalese law, and the ramifications of the approach for the political economy of Nepal.

2.3.1.2 Foreign Banks in Poor Countries:

In 2008, entitle with "Foreign banks in poor countries" published on 'The Journal of Finance' by Detragiache, Enrica et al (2008) had made research report the Theory and Evidence in this study how foreign bank penetration affects financial sector development in poor countries. A theoretical model shows that when domestic banks are better than foreign banks at monitoring soft information customers, foreign bank entry may hurt these customers and worsen welfare. The model also predicts that credit to the private sector should be lower in countries with more foreign bank penetration, and that foreign banks should have a less risky loan portfolio. In the empirical section, we test these predictions for a sample of lower income countries and find support for the theoretical model.

2.3.2 Nepalese Context

Malakar, Radheshyam has done a research by which carried out that on 2010 Nepal was gone to open the Financial Service Sector (FSS) for the wholesale banking as per the World Trade Organization (WTO) commitments. Opening of the FSS brings both the positive as well as the negative impacts to the sector and to the economy. On the other hand, it may boost up the economy by properly channeling the capitals and provides the funds for the investment and on the other hand, the crisis in the sector is very harmful that can wind down the whole economy as well. At the present context, importance of FSS cannot be ignored to the economy. A poor and donor reliant country like Nepal, membership of WTO is not a matter of choice. The Capital Account Convertibility (CAC) regime is the pinnacle of the liberalization of FSS. There are some preconditioned for proceeding towards the full CAC regime to reap benefit from it.

2.3.2.1 Challenges in Banking:

Panta, Radhesh had made research overview that Nepal has become member of World Trade Organization (WTO) and has committed to open Financial Services Sector (FSS) especially banking services to the foreign banks and financial institutions by 2010. This could be threat as well as opportunities for banking sector of Nepal. The existing level of Non- Performing Assets (NPA) is not that much healthy sign for the smooth growth of banking sector. One should seriously need to re-think proper strategy for managing NPA. The predominance of rural economy urge bank and financial institutions of Nepal to peneterate in this sector with innovative products of microfinance as insurence, remittance, etc.so as to support poverty alleviation programme. Expansion of Small and Medium Sized Enterprises (SMEs) in rural sector could lured to banking sector to invest on it too. Managing inflow of remittances would yield fruitful outcome for Nepal. Public private partnership concept will be equally desirable for poverty alleviation, growth and expansion of banking service especially in the rural economy.

2.3.2.2 Market Structure of Nepalese Banking Industry

In 2006 “Market structure of Nepalese banking industry” By Gajurel, Dinesh Prasad In his paper examines the evolution of market concentration and market competition of Nepalese banking industry for 2001-2009. The Hirschman-Herfindahl indices indicated decreasing trend & low level of market concentration. The test of market competition/contestability by using Panzar-Rosse approach rejected both the hypotheses for monopoly & perfect competition indicating monopolistic market behaviors among banks. In addition, the market for interest-based income is found more competitive than that of for fee-based income. The results further indicate scale economies & inverse impact of equity capitalization on revenue generation. The results are robust across different specifications & across different estimation techniques.

2.3.2.3 WTO and Nepalese Financial Institution

Kafle, Narayan Prasad PhD Scholar, Leadership Studies, Kathmandu University, School of Education. In his article attempts to unveil the possible consequences that have emerged due to Nepal's accession to the World Trade Organization (WTO) agreements and the preparedness to be demonstrated by the Nepalese financial institutions in reference to their efforts of capacity enhancement so as to set up themselves at par with the international standards. Beginning from the agreed General Agreements on Trade and Services (GATS) provisions on Financial Sector Service (FSS), this paper shall attempt to expose the gap between the expected accommodations and the existing realities. The fundamental assumption manifested through this article is the requirement to perform in urgency so as to take the potential benefits of WTO provisions since there is no way out as Nepal has already signed the agreement.

2.3.2.4 Financial institutions and economic growth:

In 2008 A.D, khatri, S et al (2008) had overview on their project report Financial Institutions have been regarded to be the core area of economic development. However, Nepal could not achieve satisfactory level of economic development and growth due to Maoists war (1996-2006) and the political instability. The increase in size and number of commercial banks are limited only in the urban areas so that banking services are not accessible to the general public. This paper examines interaction between financial development and economic growth in Nepal employing correlation analysis, regression analysis, financial ratios and other related theories. As we found that financial institutions have grown rapidly which has implication in overall economy of the nation. The economic indicators such as GDP, GDP per capita, loan assets of commercial banks, investment, deposit, number of commercial banks, and inflation rate from fiscal year 2001 to 2007 are used for the analysis of this study. The relevant ratios of commercial banks such as deposit, investment, and profitability are found to be in increasing trend. The growth rate of GDP/capita is however volatile in the study period, the regression result of Deposit/GDP is weakly significant under the study period. The investment growth rate is not significant at all possibly due to the time lag of the effect of investment on the economic development. Furthermore, correlation between Growth rate of GDP and deposit/GDP (ρ=0.49). The Growth rate of GDP and investment over GDP is positive related with a correlation coefficient of 0.82. This has confirmed our beliefs in the set out of the thesis.

2.4 Review of Theses

Few thesis reports are related to foreign bank industry some reports are viewed here,

In 2009/10 by Charles, A.K from University in Prague, Institute of Economic studies made a thesis report entitled "Foreign Bank Participation in Transition Economies" the study had based on the special foreign bank participation in transition economies. In this thesis discusses the topic of foreign bank participation in transition economies. First part presents theoretical considerations about foreign bank entry and their empirical support. The main focus is then on the empirical investigation of the possible relation between the degree of foreign bank participation and the availability of credit across transition countries. Combining responses from a survey of firms operating in 38transition economies with data on the degree of foreign bank participation, it derived some interesting conclusions. The analysis suggests that conditions for obtaining credit seem to be better in economies having higher share of foreign banks within countries of Central and Eastern Europe. The opposite conclusion was derived for countries of

Commonwealth of Independent States their economies with higher foreign presence tend to perceive conditions of financing as more problematic. Moreover, it was shown that enterprise size, its ownership and sector within which operates also matter when drawing conclusions on the effects on foreign bank on the availability of credit.

In 2008, by Shrestha, Nita, made a thesis entitled "Comparative analysis of Liquidity Management with special Reference to Joint Venture Banks in Nepal" she had used different statistical and financial analytical tools and Table, chart and Diagram to represent the Data. She had taken only 5 Joint venture Banks in Nepal on the topic relating to Liquidity management Due to the small sample size it may not fully represent Nepal as a whole. This study is based on secondary data (ready made) as well as primary data (first hand data). Secondary data are used to analyze the historical trend in liquidity management and primary data are used to find the factor affecting the liquidity management of commercial bank. The relation with liquidity to other variables is analyzed by using primary data, which is drawn by filling a questionnaire from the respondents.

In 2012, by Gajurel and Pradhan from school of economics and finance , university of Tasmania, and central Department of management ,Tribhuvan university, Kathmandu , Nepal had made study title with "concentration and competition in Nepalese banking" it was publish in Journal of business economics and finance year 2012. In this study the evolution of market concentration and tests the market competition of Nepalese banking industry for an unbalanced panel of 15-25 banks for the period of 2001-2009. The market concentration is measured by Hirschman-Herfindahl indices and concentration ratios, and market competition is tested under Panzar-Rosse approach. The concentration measures indicate decreasing trend and low level of market concentration in Nepalese banking industry over the sample period. The test of market Competition/contestability by using Panzar-Rosse approach rejects both the hypotheses for monopoly and perfect competition indicating monopolistic market behaviors among the Nepalese banks. In addition, the market for interest-based income is found to be more competitive than that of the market for fee-based income. The results further indicate that the size of bank has positive, and equity capitalization has negative impact on revenue generation. The results are robust across different specifications and across different.

In 2004, IMF working paper by Inwon song made a thesis entitle “Foreign Bank Supervision and Challenges to Emerging Market Supervisors” From Monetary and Financial Systems Department, The increased presence of foreign banks in a country's domestic banking system necessitates the development of effective cross-border prudential supervision where the consolidated supervision is the essential element. This paper presents foreign bank supervision in terms of division of responsibilities between the home and host countries, consolidated supervision, quality of home-country supervision, memoranda of understanding (MOUs), and "ringfencing" of banks. A number of challenges which foreign banks bring to emerging market banking supervisors are also discussed. The paper also provides surveys of country cases.

2.5 Research Gaps

While reviewing the books, articles and previous studies, it is found that there are so many theories and policies relating to foreign bank and Nepalese banking market in foreign practice. Foreign banking is considered as an important discipline in other developed countries. But it is still lacking in Nepal. In Nepalese books, journals and studies, it is taken only as a part of overview. Even in central library, TU, the research on this discipline was not found. On this research heading, there were found but only relating to Joint venture banks in Nepal. Thus, this research work is done to fulfill this kind of lacks. Moreover, in this research, an attempt has been made to highlight about the foreign bank in Nepal where the positive side of opening the foreign financial is that the door to international capital market would help overcome the ‘lack of capital’ and can help fulfill the dream of huge and ambitious project. But it also opens the door to enter into the foreign financial markets for Nepalese financial institutions.

CHAPTER III
RESEARCH METHODOLOGY

3.1 Introduction

Methodology is the research method used to test the hypothesis. Research Methodology is a systematic way to solve the research problems. It describes the methods and process applied in the entire aspects of the study. It refers to the various sequential steps (along with a rational of each step) to be adopted by a researcher in studying a problem with certain objectives in view. (Kothari, 1994:19) Thus the overall approach to the research is presented in this chapter. This Chapter contains the research design variables sample size, sample selected, procedure, data collection procedure data processing look and tech technique etc.

3.2 Research Design

"The research design is the outline of a plan to test the hypothesis and should include all the procedure that follows." (Pant, 2000:50) It is a plan, structure and strategy of the collection, measurement and analysis of data for the study. It arranges the conditions and the analysis of the data in a manner that aims to combine relevance to the research objectives with economy in procedure. This is an ex-post factor or historical research design. This research study attempts to analyze the presence of foreign bank in Nepalese banking industry. Hence, research design is analytical and descriptive. The relevant and needed data has been collected from various publications of NRB and publications from different sources.

3.3 Populations and Samples

The term 'population' or 'universe' for means all the members of any well-defined class of events of objectives." (Pant, 2002:75) "A small portion chosen from the population for studying its properties is called sample and the number of units in the sample is known as sample size. The method of selecting for study a small portion of the population to draw conclusion about the characteristics of the population (universe) is known as sampling." (Chaudhary, 2058:171) Since study of whole universe is not possible due to the lack of time, money and capacity and involvement of destructive elements sampling becomes essential to draw inference for the population.

3.3.1 Sample

Good sample represents the characteristics of the population. "Thus sampling procedures provide generalizations on the basis of a relatively small portion of the population." (Chaudhary, 2058:171) Among 32 commercial banks (Listed in NEPSE), there are 7 Foreign joint venture commercial banks in Nepal which are listed below.

1. Nepal Arab Bank Ltd-NABIL
2. Standard Chartered Bank Ltd-SCBL
3. Himalayan Bank Ltd-HBL
4. NBBL Bank Ltd.-NBBL
5. Nepal SBI Bank Ltd- NSBIL
6. Everest Bank Ltd. - EBL
7. NMB Bank ltd - NMB

All foreign joint banks have been chosen as sample banks. Simple random sampling method has been used for the selection. Thus, probability of being selected is equal for all units.

3.3.2 Country Analysis:

The country analysis proceeds along the lines of the format described above with a matrix for vertical comparison given at the end. The two SAARC countries (India and Sri Lanka) are first given followed by two SEACEN countries (Indonesia and Thailand). Various publications of NRB have been collected from concerned departments of NRB Baluwatar. Similarly, reports of foreign bank or wholesale banking have been collected from different web sites, articles and publication. Reports of World Bank, textbooks, journals, and unpublished dissertation have been obtained by visiting to central library and Shanker Dev Campus library. In addition, web sites of NRB, WTO, IMF, SEACEN, ADB, SAARC have also used for related information.

3.4 Sources and Nature of Data

The study is based on secondary data (readymade) as well as primary data (first hand data). Secondary data are used to analyze the major financial indicator of the foreign joint venture bank in Nepalese banking industry and primary data are used to find the factor affecting the foreign banking in Nepalese banking industry. The relation, problem and possibilities to other variables is analyzed by using primary data, which is drawn by filling a questionnaire from the respondents. The respondents of the primary data are senior level officials and professional of banking sector. The opinions, experiences, and thoughts of practitioners play a significance importance to identify the problem and prospects on concept of foreign bank in Nepalese banking industry.

The sources of secondary data are AGM reports of commercial banks. NRB web-sites, bulletins publication of different authorities, researchers, journals, unpublished thesis reports, newspapers etc. The learners' practitioners and banking professionals of the banking sector are the major source of primary information of this study. The data have been provided from official sources. The data for the SAARC countries have been throughout SAARCFINANCE, a regional network of Central Bank Governors and Finance Secretaries. The first is that the study is only as good as the data obtained. The second is that the paper focuses on representative sample of SAARC and SEACEN countries which are: SAARC (India and Sri Lanka) and SEACEN (Indonesia and Thailand).

3.5 Data collection Technique:

The research consists of both primary as well as secondary data. Since the nature of these two types of data is different, the data collection procedure also varies. To collect the secondary data published materials are viewed in various sports. Books by different authors, unpublished thesis reports, journals, magazines, internet web-sites, bulletins published by NRB, are major sources of secondary data. To collect these secondary data, the researchers visited campus library of Shanker Dev campus including online library, TU Central Library and Nepal Rastra Bank's Library.

The primary data collected through scheduled questionnaire, opinion survey, observation and the personal interview to the learners and practitioners of commercial and central bank of Nepal.

The researcher filled up the questionnaires by personal meeting with the respondents. Opinions obtained during the personal meeting with the respondents have been incorporated in this study. The study consists of both primary as well as secondary data. Since the nature of these two types of data is different, the data collection procedure also varies. To collect the secondary data published materials are viewed in various sports. Books by different authors, unpublished thesis reports, journals, magazines, internet web-sites, AGM reports of commercial banks, bulletins published by NRB, are major sources of secondary data. To collect these secondary data, the researchers visited campus library of SDC including online library, TU Central Library, SEBO/N Library and Nepal Rastra Bank's Library.

3.6 Data Analysis Tools

The primary and secondary data collected from various sources leads to the logical conclusion, only if the appropriate tools and techniques are adapted to analysis such data. The collected data has no meaning if such data are not analyzed. To analyze the data in this study the researcher has used some statistical and financial tools, which are explained here separately.

3.6.1 Statistical Tool

Statistical tools and major financial indicator are the measures or the instruments to analyze the collected data from different sources. In statistics, there are numerous statistical tools to analyze data of various natures. In this study, the researcher has used the following statistical tools to analyze the data.

3.6.1.1 Average (Mean)

An average is a single value related from a group of values to represent them in someway, a value which is supposed to stand for whole group of which it is part, as typical of all the values in the group. (Gupta, 1990:7.2) There are various types of averages. Arithmetic mean (A.M., simple and weighted), median, mode, geometric mean, harmonic mean, are the major types of averages. The most popular and widely used measure representing the entire data by one value is the A.M. The value of the A.M. is obtained by adding together all the items and by dividing this total by the number of items. Mathematically, (Gupta, 1992:238)

Arithmetic Mean (A.M.) is given by, $\overline{X} = \dfrac{X}{n}$

Where,

$\overline{X}$ = Arithmetic Mean

X = Sum of all the values of the variable X.

n = Number of observations

3.6.1.2 Standard Deviation

The standard Deviation (σ) measures the absolute dispersion. The greater the standard deviation, greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa.

Mathematically, (Gupta, 1992:380)

Standard Deviation (σ) = $\sqrt{\frac{1}{n}\sum (X-\overline{X})}$

3.6.1.3 Coefficient of Variation

The standard deviation is absolute measures of dispersion: where as the coefficient of variation (CV) is a relative measure. To compare the variability between two or more series, CV is more appropriate statistical tool. Mathematically, (Gupta, 1992:380)

Coefficient of Variation (CV) = $\frac{\pm}{\overline{X}} x100$

3.6.2 Major financial Indicator

Financial Ratio Analysis is a tool, through which economic and financial position of organization can be fully to X-rayed. It is the indicated quotient of two mathematical expressions, and as the relationship between two or more things. Therefore, to find out the liquidity position of the sampled commercial banks, the following ratios are examined:

Analysis of Major Financial Indicators

Financial Indicators is a tool, through which economic and financial position of organization can be fully to X-rayed. It is the indicated quotient of two mathematical expressions, and as the relationship between two or more things. Therefore to find out the financial position of the foreign Joint venture banks, the following financial indicators are examined.

I) Core Capital to Risk Weighted Assets

Tier 1 capital is the core measure of a bank's financial strength from a regulator's point of view. It is composed of *core capital*, which consists primarily of common stock and disclosed reserves (or retained earnings), but may also include non-redeemable non-cumulative preferred stock. The Basel Committee also observed that banks have used innovative instruments over the years to generate Tier 1 capital these are subject to stringent conditions and are limited to a maximum of 15% of total Tier 1 capital. The Tier 1 capital ratio is the ratio of a bank's core equity capital to its total risk-weighted assets (RWA). Risk-weighted assets are the total of all assets held by the bank weighted by credit risk according to a formula determined by the Regulator (usually the country's central bank). Most central banks follow the Basel Committee on Banking Supervision (BCBS) guidelines in setting formulae for asset risk weights. Assets like cash and coins usually have zero risk weight, while certain loans have a risk weight at 100% of their face value.

$$\text{Core capital to risk weighted assets} = \frac{\text{Core capital}}{\text{Risk weighted assets}} \times 100$$

II) Capital Fund to Risk weighted Assets

Capital in this sense is related to, but different from, the accounting concept of shareholders' equity. Both Tier 1 and Tier 2 capital were first defined in the Basel

I capital accord and remained substantially the same in the replacement Basel II accord. Tier 2 capitals represents "supplementary capital" such as undisclosed reserves, revaluation reserves, general loan-loss reserves, hybrid (debt/equity) capital instruments, and subordinated debt. Each country's banking regulator, however, has some discretion over how differing financial instruments may count in a capital calculation. This is appropriate, as the legal framework varies in different legal systems. The theoretical reason for holding capital is that it should provide protection against unexpected losses. Note that this is not the same as expected losses, which are covered by provisions, reserves and current year profits. In Basel I agreement, Tier 1 capital is a minimum of 4% ownership equity but investors generally require a ratio of 10%. Tier 1 capital should be greater than 150% of the minimum requirement.

$$\text{Capital Fund to Risk weighted Assets} = \frac{\text{Capital Fund}}{\text{Risk Weighted Assets}} \times 100$$

III) Credit to Deposit Ratio

Nepal Rastra Bank (NRB), the central bank, is the regulatory body of all the commercial banks. In order to enable the smooth functioning of the commercial banks, NRB has compelled them to hold a certain percentage of their total deposit as a reserve. This is particularly done on order to maintain the strength of commercial banks regarding the liquidity position. This ratio is calculated by using the following formula:

$$\text{Credit To Deposit Ratio} = \frac{\text{Credit}}{\text{Total Deposit}} \times 100$$

CD Ratio % = Total Credit TO Total Deposit

CCD Ratio% = LCY Core Capital & LCY Deposit, Should not Exceed 80%

IV) Liquid Assets to Total assets Ratio

The total amount of funds that are in the form of cash or can quickly be converted to cash. These include (1) cash (2) demand deposits (3) time and savings deposits and (4) investments capable of being quickly converted into cash without significant loss, either through their sale or through the scheduled return of principal at the end of a short time remaining to maturity is known as liquid assets. Any item of economic value owned by an individual or corporation, especially that which could be converted to cash. Examples are cash, securities, accounts receivable, inventory, office equipment, real estate, a car, and other property. On a balance, assets are equal to the sum of liabilities, common, preferred stock, and retained earnings. From an accounting perspective, assets are divided into the following categories: current assets (cash and other liquid items), long-term assets (real estate, plant, equipment), prepaid and deferred assets (expenditures for future costs such as insurance, rent, interest), and intangible assets (trademarks, patents, copyrights, goodwill). The ratio of liquid assets to total assets is an indicator of a company's solvency. This ratio is calculated by dividing Liquid assets by total assets amount and the formula is:

$$\text{Liquid Assets to Total assets} = \frac{\text{Liquid Assets}}{\text{Total assets}} \times 100$$

V) Liquid Assets to Total Deposit

The type of asset that can be easily converted into cash is liquid assets. Liquid assets it can be sold rapidly, with nominal loss of value, any time within market value. Measures deposits match to investment and weather they could be converted quickly to cover redemption. Total Deposits represents the sum of Non-Interest Bearing Deposits, Interest Bearing Deposits, and Other Deposits. When a company reports its deposits without any delineation between interest-bearing and non-interest-bearing, or if the deposits are delineated in a manner other than interest-bearing/non-interest-bearing, deposits are classified as Total Deposits.

The higher the ratio is better. The ratio can be computed by using following formula:

$$\text{Liquid Assets to Total Deposit Ratio} = \frac{\text{Liquid Assets}}{\text{Total Deposit}} \times 100$$

VI) Non-Performing loan to Total loan

Nonperforming loans, or NPL, are loans that are no longer producing income for the bank that owns them. Loans become nonperforming when borrowers stop making payments and the loans enter default. The exact classification can vary from institution to institution, but a loan is usually considered to be nonperforming after it has been in default for three consecutive months. Banks often report their ratio of nonperforming loans to total loans as a measure of the quality of their outstanding loans. A smaller NPL ratio indicates smaller losses for the bank, while a larger (or increasing) NPL ratio can mean larger losses for the bank as it writes off bad loans.

This ratio measures the portions of NPL ratio refers to the ratio of non-performing loans (NPL) to total loans (gross of allowance for probable losses), inclusive of interbank loans. NPL coverage ratio refers to the ratio of allowance for probable losses on non-performing loans (NPL) to total NPL.

It is computed by dividing Non-performing loan by total loan and formula is:

$$\text{Non-performing loan to total loan} = \frac{\text{Non-performing loan}}{\text{Total Loan}} \times 100$$

VII) Return on Assets

The return on assets (ROA) percentage shows how profitable a company's assets are in generating revenue. This number tells you what the company can do with what it has, i.e. how many Rs of earnings they derive from each Rs of assets they control. It's a useful number for comparing competing companies in the same industry. The number will vary widely across different industries. Return on assets gives an indication of the capital intensity of the company, which will depend on the industry companies that require large initial investments will generally have lower return on assets. Return on assets is an indicator of how profitable a company is before leverage, and is compared with companies in the same industry. Since the figure for total assets of the company depends on the carrying value of the assets, some caution is required for companies whose carrying value may not correspond to the actual market value.

Return on assets is a common figure used for comparing performance of financial institutions (such as banks), because the majority of their assets will have a carrying value that is close to their actual market value. Return on assets is not useful for comparisons between industries because of factors of scale & peculiar capital requirements (such as reserve requirements in the insurance and banking industries). Return on assets is one of the elements used in financial analysis using the Du Pont Identity.

$$\text{Return on Assets} = \frac{\text{Net Profit after Tax}}{\text{Total assets}} \times 100$$

VIII) Weighted Average Interest Spread

In banking, the net interest rate spread is the difference between interest earned on loans, securities, and other interest-earning assets and the interest paid on deposits and other interest-bearing liabilities. Intuitively, net interest rate spread is similar to profit margin. In general, the larger a bank's interest rate spread, the more it earns and the more it is therefore worth. When interest rates change, however, the interest a bank receives on its assets and pays on its liabilities fluctuates and can decrease income. Thus, it is important to monitor changes in net interest rate spreads as well as the size of those spreads.

$$\text{Weighted average Interest spread} = \frac{\text{Total per loan weight factor}}{\text{Total loan}}$$

IX) Net Interest Income

Net interest income (NII) is the difference between revenues generated by interest-bearing assets and the cost of servicing (interest-burdened) liabilities. For banks, the assets typically include commercial and personal loans, mortgages, construction loans and investment securities. The liabilities consist primarily of customers' deposits. NII is the difference between (a) interest payments the bank receives on loans outstanding and (b) interest payments the bank makes to customers on their deposits. Depending on a bank's specific assets and liabilities (e.g., fixed or floating rate), NII may be more or less sensitive to changes in interest rates. If the bank's liabilities reprise faster than its assets, then it is said to be "liability-sensitive." Further, the bank is asset-sensitive if its liabilities reprice more slowly than its assets in a changing interest-rate environment. The exposure of NII to changes in interest rates can be measured by the dollar maturity gap (DMG), which is the difference between the dollar amount of assets that reprice and the dollar amount of liabilities that reprice within a given time period Net interest income is the difference between interest received from assets and interest paid on liabilities. The difference between the revenue that is generated from a bank's assets and the expenses associated with paying out its liabilities. A typical bank's assets consist of all forms of personal and commercial loans, mortgages and securities. The liabilities are, of course, the customer deposits. The excess revenue that is generated from the spread between interest paid out on deposits and interest earned on assets is the net interest income. The net interest income of some banks is more sensitive to changes in interest rates than others. This can vary according to several factors, such as the type of assets and liabilities that are held. Banks with variable rate assets and liabilities will obviously be more vulnerable to changes in interest rates than those with fixed-rate assets. Banks with liabilities that reprise more often or quicker than its assets will also be affected by interest rate changes.

The formula for net interest income is:

Net Interest Income = Interest income - Interest expenses

3.7 Methods of Data Presentation

The collected data (from both primary and secondary sources) are presented in simple and easily understandable tables to make those data clear and more informative. Such data have been presented in figures like bar diagram, trend line, pie chart whichever is relevant to explain the data more effectively based on the nature of data. After presenting such data in the table and figures are analyzed using various statistical, mathematical and financial tools and techniques.

Diagrammatic and Graphical Presentation gives bird eye view of a given set of numerical data. They represent the data in simply and readily comprehensive form.

Hence, bar diagram, pie charts and graphic presentation has been also analysis. To evaluate the financial position and performance of any firm ratio is used as a key tool of financial analysis. "Financial Analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account". Financial Analysis is the use of financial statements to analyze a company's financial position and performance and to assess future financial performance. The study is design partly analytical and partly judgmental in nature. The study uses both primary and secondary information. The published data from the banks, Nepal Rastra Bank, and other institutions that included the IMF, ADB, SEACEN, WTO and World Bank were the source of secondary information. The primary information was generated through open-end questionnaire administered to banks management, major stakeholders, and end-users. Necessary consultations carried out with the management of the central banks on the future of the reform process and specific areas where further reform measures should be undertaken and to achieve the objectives and examine the impact of foreign bank branches.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

This chapter is devoted to the presentation, analysis, interpretation and scoring the empirical finding out of the study through definite course of research methodology. To achieve the stated of the study and also to make the reader easier to understand the findings qualitative data and information has been analyze. Different types of ratios have been calculated to reach in the conclusion of this study. This is an analytical chapter, where an attempt has been made to analyze and evaluate the data collected. To analyze the data collected various presentation and interpretation is done in order to fulfill the objective of this study.

4.1 Introduction

This chapter deals with the presentation, analysis and interpretation of statistics, evidence and facts, to clearing the research works. Here the study presents the collected data for various purpose of analysis. The data are analyzed by using financial and statistical tools to get values of different variables. The analyzed data and result are presented clearly and simultaneously by using tables and graphs. Finally, each of the results in interpreted in each topics and sub-topics.

4.1.1 Analysis of Major Financial Indicators

Financial Indicators is a tool, through which economic and financial position of organization can be fully to X-rayed. It is the indicated quotient of two mathematical expressions, and as the relationship between two or more things. Therefore to find out the financial position of the foreign Joint venture banks, the following financial indicators are examined.

4.1.1.1 Core Capital to Risk Weighted Assets

Tier 1 capital is the core measure of a bank's financial strength from a regulator's point of view. It is composed of core capital, which consists primarily of common stock and disclosed reserves (or retained earnings), but may also include non-redeemable non-cumulative preferred stock. The Basel Committee also observed that banks have used innovative instruments over the years to generate Tier 1 capital these are subject to stringent conditions and are limited to a maximum of 15% of total Tier 1 capital. The Tier 1 capital ratio is the ratio of a bank's core equity capital to its total risk-weighted assets (RWA). Risk-weighted assets are the total of all assets held by the bank weighted by credit risk according to a formula determined by the Regulator (usually the country's central bank). Most central banks follow the Basel Committee on Banking Supervision (BCBS) guidelines in setting formulae for asset risk weights. Assets like cash and coins usually have zero risk weight, while certain loans have a risk weight at 100% of their face value.

$$\text{Core capital to risk weighted assets} = \frac{\text{Core capital}}{\text{Risk weighted assets}} \times 100$$

Table: 4.1

Core Capital to Risk Weighted Assets (IN %)

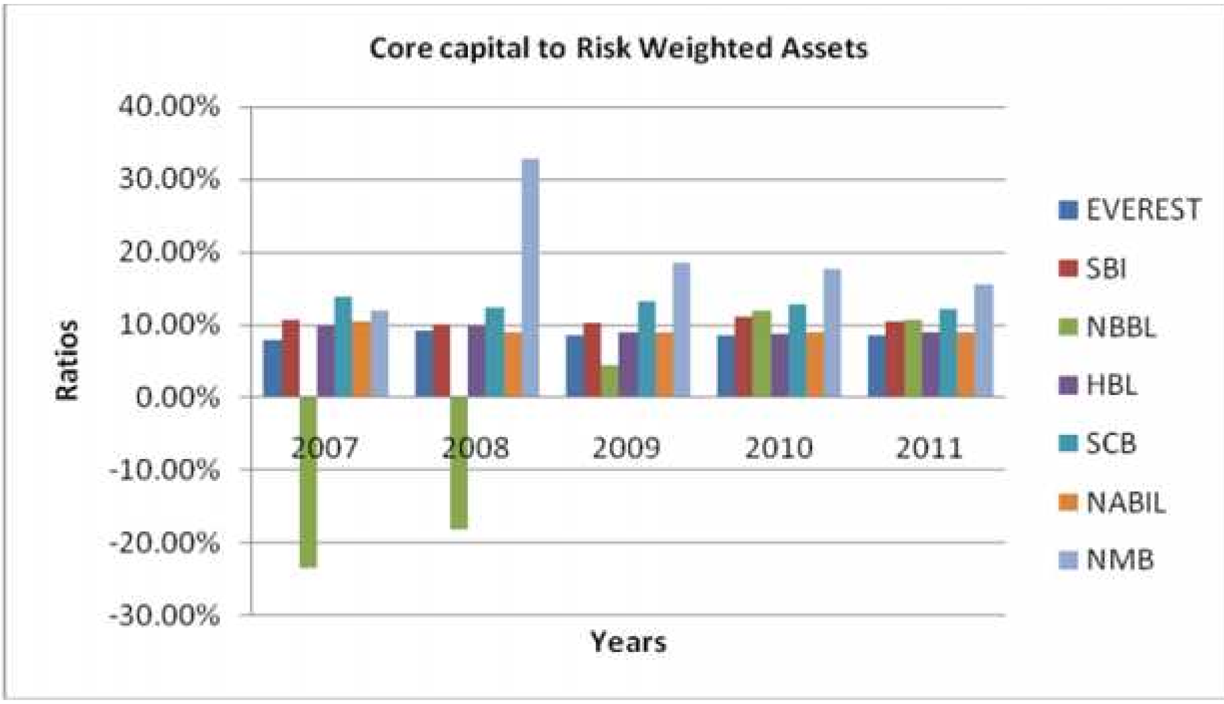
YEARS	BANKS						
	EBL	SBI	NBBL	HBL	SCB	NABIL	NMB
2007	7.8	10.53	-23.55	9.61	13.77	10.4	11.76
2008	9.04	9.97	-18.17	9.64	12.15	8.75	32.66
2009	8.52	10.03	4.42	8.81	13.05	8.74	18.42
2010	8.39	10.89	11.74	8.68	12.61	8.77	17.53
2011	8.46	10.32	10.53	8.88	12.1	8.83	15.51
Mean	**8.44**	**10.35**	**-3.01**	**9.12**	**12.74**	**9.10**	**19.18**
SD	0.39	0.34	14.88	0.41	0.62	0.65	7.12
C.V	0.05	0.03	-4.95	0.05	0.05	0.07	0.37

Source: Appendix-IV

From the table 4.1 it is revealed that core capital to risk weighted of NBBL is in the highest fluctuating trend among other banks. At 2007 NSBIL, there is the lowest ratio of core capital to risk weighted ratio i.e. -23.55%. There after it is increasing trend and the lowest ratio is 10.53 % in the year 2011. Similarly EBL, HBL, NABIL have increasing trend as comparing to SBI, SCB and NMB. During the study period, NABIL has come after EBL for low risk position. It is depicted low risk position of

EBL. The average ratio of EBL is 8.44% and Coefficient of variance (C.V) 0.05 reveals the consistency to its average ratio. But, ratios of NBBL are inconsistent to its average ratio -3.01% which implies that NBBL is more volatile than other. But other banks are relatively static as compare to NBBL. With the help of the following figure it can be observed more clearly.

Figure: 4.1



Source: Table 4.1

4.1.1.2 Capital Fund to Risk weighted Assets

Capital in this sense is related to, but different from, the accounting concept of shareholders' equity. Both Tier 1 and Tier 2 capital were first defined in the Basel I capital accord and remained substantially the same in the replacement Basel II accord. Tier 2 capitals represents "supplementary capital" such as undisclosed reserves, revaluation reserves, general loan-loss reserves, hybrid (debt/equity) capital instruments, and subordinated debt. Each country's banking regulator, however, has some discretion over how differing financial instruments may count in a capital calculation. This is appropriate, as the legal framework varies in different legal systems. The theoretical reason for holding capital is that it should provide protection against unexpected losses. Note that this is not the same as expected losses, which are covered by provisions, reserves and current year profits. In Basel I agreement, Tier 1 capital is a minimum of 4% ownership equity but investors generally require a ratio of 10%. Tier 1 capital should be greater than 150% of the minimum requirement.

$$\text{Capital Fund to Risk weighted Assets} = \frac{\text{Capital Fund}}{\text{Risk Weighted Assets}} \times 100$$

Table: 4.2

Capital Fund to Risk Weighted Assets (IN %)

YEARS	BANKS						
	EBL	SBI	NBBL	HBL	SCB	NABIL	NMB
2007	11.2	13.29	-23.55	11.13	15.71	12.04	13.31
2008	11.44	12.32	-18.17	13	0.14	11.1	33.96
2009	10.55	11.92	5.55	11.02	14.7	10.7	19.03
2010	10.77	12.25	12.81	10.72	14.6	10.5	18.37
2011	10.43	11.52	9.73	10.68	14.22	10.58	16.39
Mean	**10.88**	**12.26**	**-2.73**	**11.31**	**11.87**	**10.98**	**20.21**
SD	0.38	0.59	15.08	0.86	5.89	0.57	7.16
C.V	0.04	0.05	-5.53	0.08	0.50	0.05	0.35

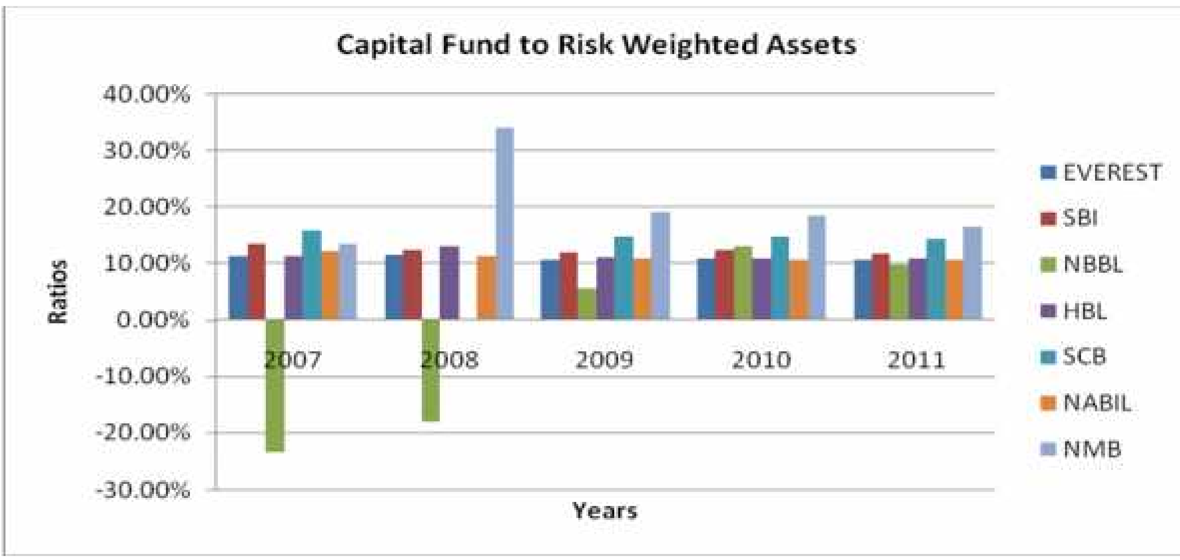
Source: Appendix-V

Table 4.2 shows that the capital fund to risk weighted assets of all banks compare to other NBBL is in fluctuating trend during the study period. The ratio of EBL is in decreasing trend and average value is 10.88% which implies that EBL has maintained low compare to the capital fund to risk weighted assets. The ratio of NBBL is also fluctuating in increasing trend. Its standard deviation is the highest among others. Therefore, its value of ratio is deviated in high range from mean value 15.08%. In comparison to other banks, capital fund to risk weighted assets of EBL constant as its S.D. is 0.38% and C.V. is 0.04. It is consistent to its average ratio 10.88% it implies that the percentage of capital fund to risk weighted assets is low in EBL and it is good among others. The average ratio of NMB is 20.21% and SD is 7.16 % and CV is 0.35%. It reveals that the capital fund to risk weighted assets is quite lower among others in EBL. The capital fund to risk weighted assets value of NABIL bank is also fluctuating in decreasing trend during study period. Since, its average ratio is 10.98%, which is depicted that the capacity of NABIL to meet the immediate obligation is good. And the value of CV is 0.05 shows the consistency of ratio during the study period.

By comparing the seven foreign joint venture sample banks, it is reveals that the EBL is highly consistent to average ratio. It has strong capacity to meet the immediate obligation & NBBL has the poor capacity to capital fund to risk weighted. The ratio of NBBL is inconsistent to average & the ratio is declining too low. The position of HBL and NABIL are good among the sampled banks and rest of them is in average level. With the help of the following figure it can be seen more clearly.

Figure 4.2

Comparative Analysis of Capital Fund to Risk Weighted Assets Ratio



Source: Table 4.2

4.1.1.3 Credit to Deposit Ratio

Nepal Rastra Bank (NRB), the central bank, is the regulatory body of all the commercial banks. In order to enable the smooth functioning of the commercial banks, NRB has compelled them to hold a certain percentage of their total deposit as a reserve. This is particularly done on order to maintain the strength of commercial banks regarding the liquidity position. This ratio is calculated by using the following formula:

$$\text{Credit To Deposit Ratio} = \frac{\text{Credit}}{\text{Total Deposit}} \times 100$$

CD Ratio % = Total Credit TO Total Deposit

CCD Ratio % = LCY Credit to Core Capital and LCY Deposit, Should not Exceed 80% (As per NRB Rules)

Table: 4.3

Comparative Analysis of Credit to Deposit (IN %)

YEARS	BANKS						
	EBL	SBI	NBBL	HBL	SCB	NABIL	NMB
2007	77.4	82.66	96.91	56.57	43.78	68.13	112.02
2008	79	88.32	87.01	61.23	46.95	68.18	120.96
2009	73.43	55.84	91.33	71.49	38.7	73.87	76.78
2010	74.61	51.48	78.26	74.39	45.98	69.37	78.44
2011	76.98	51.2	88.93	80.57	49.11	78.29	88.16
Mean	**76.28**	**65.90**	**88.49**	**68.85**	**44.90**	**71.57**	**95.27**
SD	2.00	16.18	6.10	8.76	3.54	3.97	17.98
C.V	0.03	0.25	0.07	0.13	0.08	0.06	0.19

Source: Appendix-VI

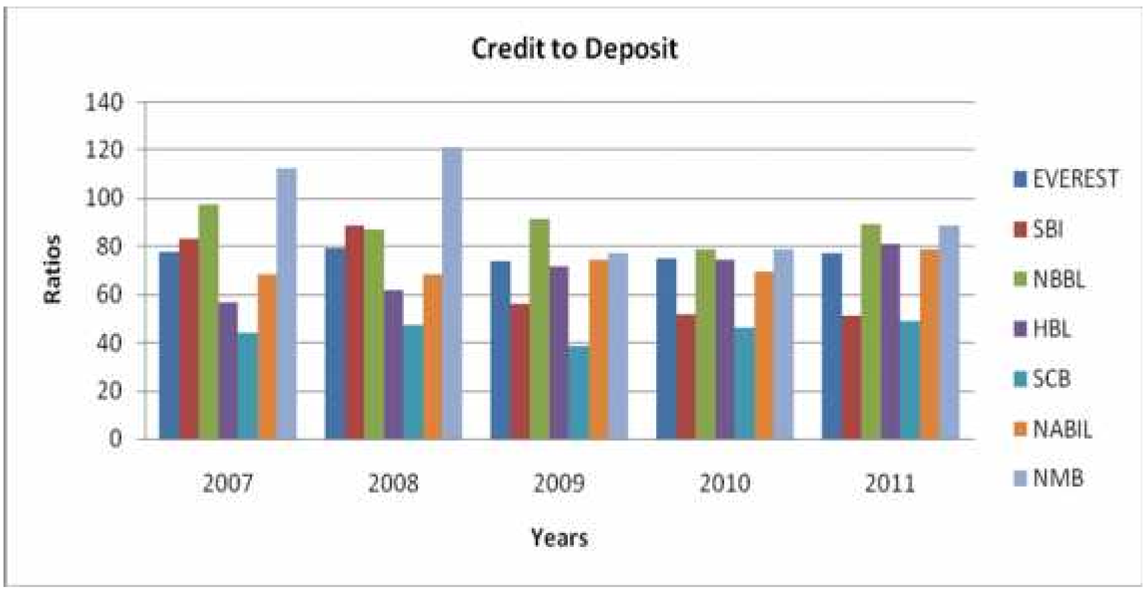
From the table 4.3, it is revealed that the Credit to total deposit ratio of EBL is 76.28% in average. The highest ratio is 79% in 2008 and the lowest ratio is 73.43 % in the year 2009. The value of CV 0.03 implies that the ratio is inconsistent and it is low compare to the other sample bank. Similarly, the ratio of NMB is in fluctuating trend the 95.27% in average which is very high compare to the other sample bank. According to the NRB rules CD ratio should not exceeded more than 80%.

NMB bank has mobilized more funds in average i.e. 95.27. Another bank, SCB is seen lowest to other sample Bank to the ratio to credit to total deposit ratio. The CV 0.08 shows the consistency to average ratio 44.90%. The trend of ratio of SCB is least fluctuating among others. The Credit to total deposit ratio of SBI is fluctuating in decreasing trend. The CV 0.25 shows that it is inconsistent to average ratio 65.90% but it is lesser volatile than NMB i.e. 0.03 > 0.19.

In comparing among these seven sampled banks, the fact is revealed that the credit to deposit ratio of SCB is strong and HBL and SBI are in satisfactory but NMB is in poor position. SCB has utilized 44.90% of total deposit in short term and enjoyed two benefits, like liquidity and profitability. On the other hand, the CV of SCB is comparatively normal among other i.e. 0.08. This explains that the credit to total deposit is more consistent in comparison to other banks. With the help of the following figure it can be seen more clearly.

Figure: 4.3

Comparative Analysis of Credit to Deposit Ratio



Source: Table 4.3

4.1.1.4 Liquid Assets to Total assets Ratio

The total amount of funds that are in the form of cash or can quickly be converted to cash. These include (1) cash (2) demand deposits (3) time and savings deposits and (4) investments capable of being quickly converted into cash without significant loss, either through their sale or through the scheduled return of principal at the end of a short time remaining to maturity is known as liquid assets. Any item of economic value owned by an individual or corporation, especially that which could be converted to cash. Examples are cash, securities, accounts receivable, inventory, office equipment, real estate, a car, and other property. On a balance, assets are equal to the sum of liabilities, common, preferred stock, and retained earnings. From an accounting perspective, assets are divided into the following categories: current assets (cash and other liquid items), long-term assets (real estate, plant, equipment), prepaid and deferred assets (expenditures for future costs such as insurance, rent, interest), and intangible assets (trademarks, patents, copyrights, goodwill). The ratio of liquid assets to total assets is an indicator of a company's solvency.

This ratio is calculated by dividing Liquid assets by total assets amount and the formula is:

$$\text{Liquid Assets to Total assets} = \frac{\text{Liquid Assets}}{\text{Total assets}} \times 100$$

Table: 4.4

Comparative Analysis of Liquid Assets to Total assets Ratio (IN %)

YEARS	BANKS						
	EBL	SBI	NBBL	HBL	SCB	NABIL	NMB
2007	47.11	27.47	28.13	29.6	42.65	24.85	56.25
2008	28.82	27.24	33.5	26.09	40.25	25.07	70.78
2009	30.64	16.85	35.84	21.44	37.43	17.4	59.85
2010	29.42	20.38	31.42	20.23	30.16	23.92	29.51
2011	28.7	22.68	28.8	21.62	39.29	23.5	22.83
Mean	**32.94**	**22.92**	**31.54**	**23.80**	**37.96**	**22.95**	**47.84**
SD	7.12	4.07	2.88	3.52	4.25	2.83	18.45
C.V	0.22	0.18	0.09	0.15	0.11	0.12	0.39

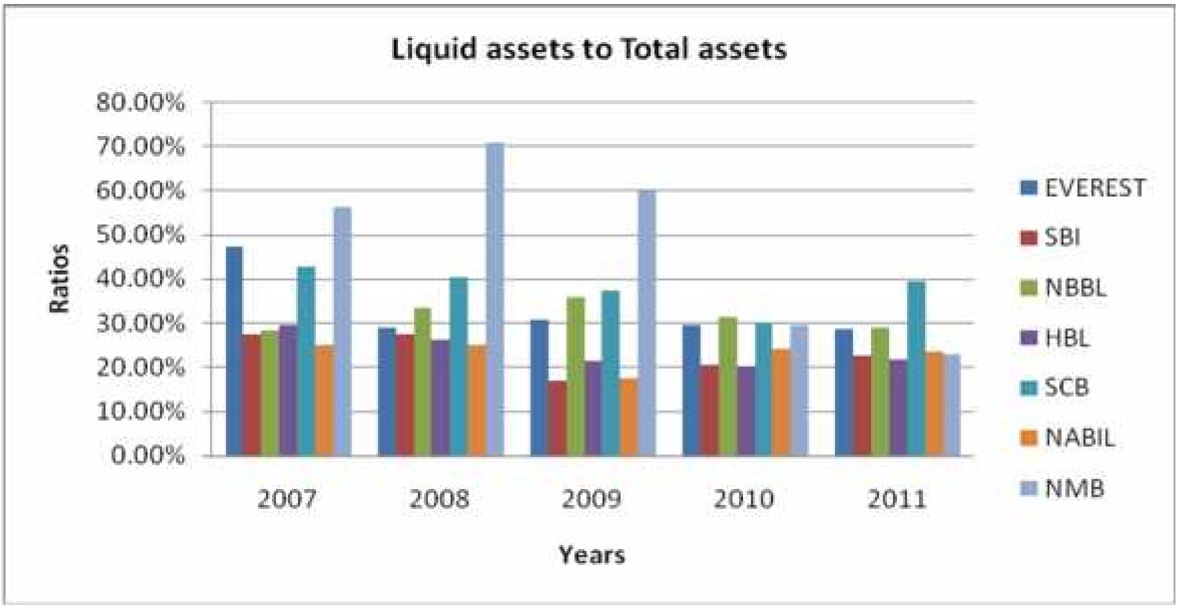
Source: Appendix-VII

From the table 4.4, it is depicted that the ratio of liquid assets to total assets ratio of EBL is in less fluctuating trend. The highest ratio is 47.11% in the year 2007 and lowest ratio is 28.7% in the year 2011. The value is consistent to average too. The ratio of SBI is increasing trend in 2007 and 2008 after that decreasing trend. It is deviated by 4.07 % than the average ratio 22.92%. The highest ratio is 27.47% in the year 2007 and the lowest ratio is 16.85 in the year 2009. The ratio of NBBL is inconsistent to average ratio as compare to EBL and SBI. The data of NMB shows that the ratio is highly volatile during the study period. The highest ratio is 70.78% and lowest ratio is 22.83% and it is deviated by 18.85% from the average ratio

47.84%. As CV is 0.39 it shows the ratios of NMB are inconsistent to the average ratio 47.84%. With the help of the following figure it can be seen more clearly.

Figure: 4.4

Comparative Analysis of Liquid Assets to Total assets Ratio



Source: Table 4.4

4.1.1.5 Liquid Assets to Total Deposit

The type of asset that can be easily converted into cash is liquid assets. Liquid assets it can be sold rapidly, with nominal loss of value, any time within market value. Measures deposits match to investment and weather they could be converted quickly to cover redemption. Total Deposits represents the sum of Non-Interest Bearing Deposits, Interest Bearing Deposits, and Other Deposits. When a company reports its deposits without any delineation between interest-bearing and non-interest-bearing, or if the deposits are delineated in a manner other than interest-bearing/non-interest-bearing, deposits are classified as Total Deposits.

The higher the ratio is better. The ratio can be computed by using following formula:

$$\text{Liquid Assets to Total Deposit Ratio} = \frac{\text{Liquid Assets}}{\text{Total Deposit}} \times 100$$

Table: 4.5

Liquid Assets to Total Deposit Ratio (IN %)

YEARS	BANKS					
	EBL	SBI	HBL	SCB	NABIL	NMB
2007	55.51	33.36	33.02	36.76	29.01	191.82
2008	32.64	34.14	29.64	35.91	29.17	380.31
2009	33.94	18.64	24.31	42.35	20.43	137.97
2010	32.96	22.22	22.97	34.48	26.89	38.6
2011	32.26	24.64	24.7	45.3	27.53	28.3
Mean	**37.46**	**26.60**	**26.93**	**38.96**	**26.61**	**155.40**
SD	9.04	6.15	3.79	4.14	3.21	128.07
C.V	0.24	0.23	0.14	0.11	0.12	0.82

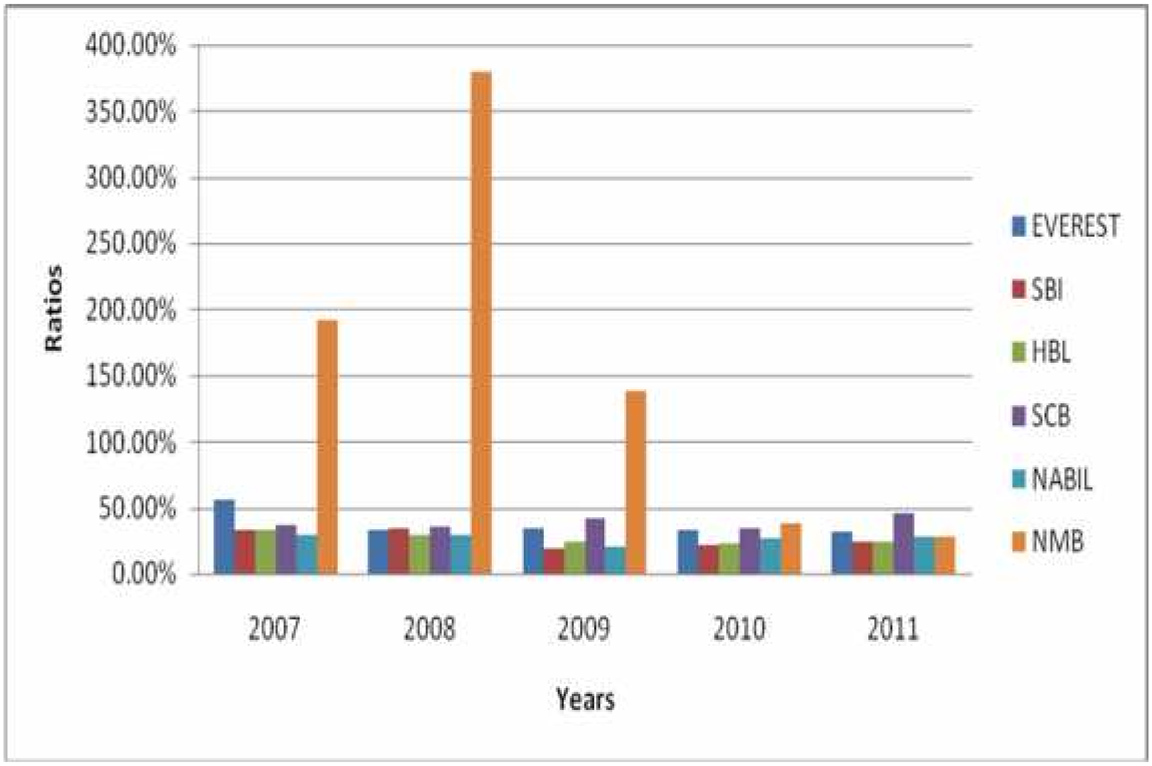
Source**:** Appendix-VIII

From the table 4.5, it is observed that EBL liquid assets to total deposit ratio only 37.46% in average during the study period. The highest ratio of liquid assets to total deposit ratio is 55.51 % in the year 2007 and lowest ratio is 32.26% in the year 2011. In aggregate the liquid assets to total deposit ratio is downward slope deviating by 9.04% from the average ratio 37.46%. The data of SBI bank show that the average Liquid asset to total deposit is 26.60%. It is also in decreasing trend deviating by 6.15% from average ratio. The highest liquid assets to total deposit ratio is 34.14% in the year 2008 and lowest ratio is 18.64% in the year 2008. The liquid asset to total deposit of HBL is less fluctuating in decreasing trend. Since it CV is 0.14 it is consistent to average ratio of 26.93%. NABIL bank has only 26.61% in average and it shows the satisfactory level. The data of NMB bank show the fluctuating trend that the average liquid assets to total deposit from the year 2007 to 2011 i.e. 155.40%. It's has high volatile than other Bank.

Since CV is 0.82 and deviation is 128.07 %, its growth ratio is consistent to average ratio. Among these seven sampled banks SBI, HBL and NABIL is in strong position in liquid assets to total deposit. Its average investment is 155.40%. The liquid assets to total deposit ratio position of SCB and NMB is high. With the help of the following figure it can be seen more clearly.

Figure: 4.5

Comparative Analysis of Liquid Assets to Total Deposit Ratio



Source: Table 4.5

4.1.1.6 Non-Performing loan to Total loan

Nonperforming loans, or NPL, are loans that are no longer producing income for the bank that owns them. Loans become nonperforming when borrowers stop making payments and the loans enter default. The exact classification can vary from institution to institution, but a loan is usually considered to be nonperforming after it has been in default for three consecutive months. Banks often report their ratio of nonperforming loans to total loans as a measure of the quality of their outstanding loans. A smaller NPL ratio indicates smaller losses for the bank, while a larger (or increasing) NPL ratio can mean larger losses for the bank as it writes off bad loans.

This ratio measures the portions of NPL ratio refers to the ratio of non-performing loans (NPL) to total loans (gross of allowance for probable losses), inclusive of interbank loans. NPL coverage ratio refers to the ratio of allowance for probable losses on non-performing loans (NPL) to total NPL.

It is computed by dividing Non-performing loan by total loan and formula is:

$$\text{Non-performing loan to total loan} = \frac{\text{Non-performing loan}}{\text{Total Loan}} \times 100$$

Table: 4.6

Comparative Analysis of Non-performing loan to Total loan (IN %)

YEARS	BANKS						
	EBL	SBI	NBBL	HBL	SCB	NABIL	NMB
2007	0.8	4.56	39.76	3.61	1.83	1.12	1.73
2008	0.68	3.83	31.73	2.36	0.92	0.74	1.52
2009	0.48	2.02	19.8	2.16	0.66	0.8	0.51
2010	0.16	1.48	6.47	3.52	0.61	1.47	0.7
2011	0.34	1.1	19.18	4.22	0.62	1.77	0.27
Mean	**0.49**	**2.60**	**23.39**	**3.17**	**0.93**	**1.18**	**0.95**
SD	0.23	1.36	11.44	0.79	0.47	0.39	0.57
C.V	0.47	0.52	0.49	0.25	0.50	0.33	0.61

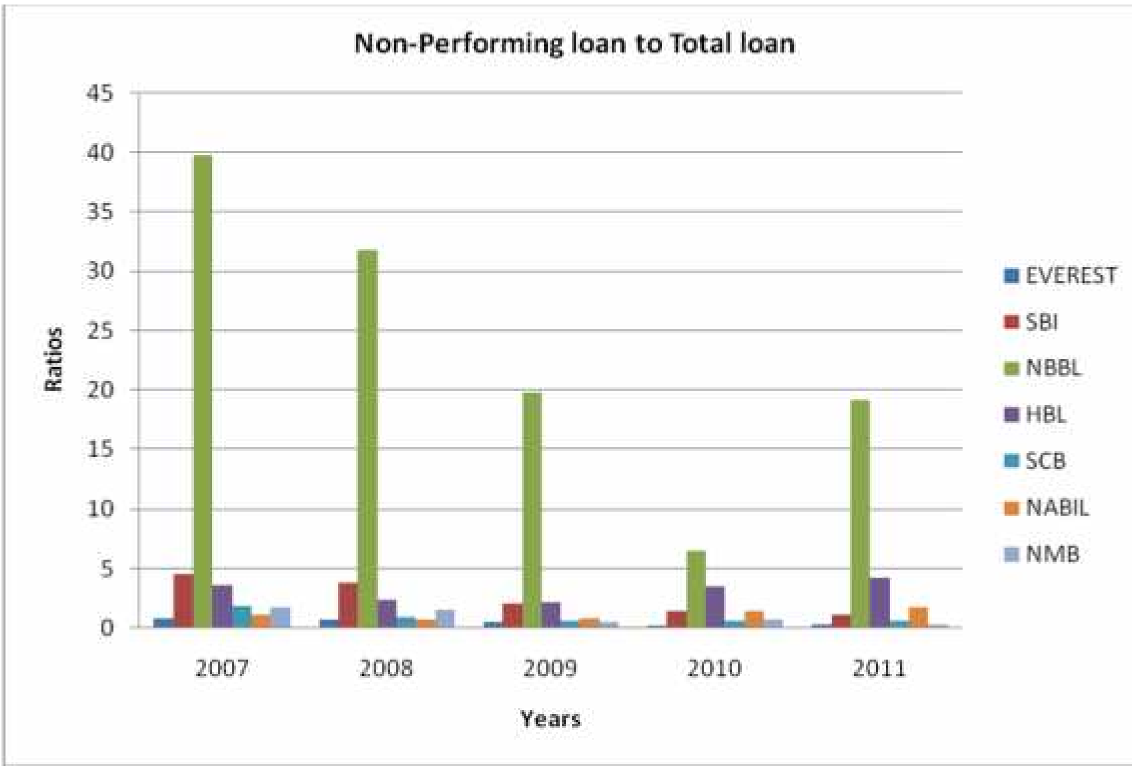
Source: Appendix-IX

From the table 4.6, it is presented the facts that the Non-performing loan to total loan of all banks are in fluctuating trend. The average ratio of non-performing loan to total loan of EBL is 0.49% which implies that out of total loan. During the study period the ratios is consistent to average ratio which is shown by CV of 0.47. The data of SBI bank show that the average non-performing loan to total loan i.e. 2.60%. It is also in decreasing trend deviating by 1.36% from average ratio. The highest non-performing loan to total deposit ratio is 4.56% in the year 2007 and lowest ratio is 1.1% in the year 2011. The data of NBBL shows that the ratio is highly volatile during the study period. The highest ratio is 39.76% and lowest ratio is 6.47% and it is deviated by 11.44% from the average ratio 23.39%. As CV is 0.49 it shows the ratios of NBBL are inconsistent to the average ratio 23.39%. As the average ratio of HBL is 3.17% from the total loans. The consistent of ratio of EBL is lesser than SBI i.e. 0.47>0.52 and the average ratio is lesser than SBI. The collection rate of non-performing to total loan average is 1.18 % in NABIL. By comparing the data of seven sampled banks, average ratio of EBL is the lowest among other banks i.e.

0.49%. Ratio of NBBL is highly inconsistent and SCB is highly consistent. This indicates that non-performing loan to total loan is lowest of EBL compare to other sample Bank it is in good position and highly volatile is NBBL which is much riskiest to non-performing loan to total loan. With the help of the following figure it can be seen more clearly.

Figure: 4.6

Comparative Analysis of Non-performing loan to Total loan



Source: Table 4.6

4.1.1.7 Return on Assets

The return on assets (ROA) percentage shows how profitable a company's assets are in generating revenue. This number tells you what the company can do with what it has, i.e. how many Rs of earnings they derive from each Rs of assets they control. It's a useful number for comparing competing companies in the same industry. The number will vary widely across different industries. Return on assets gives an indication of the capital intensity of the company, which will depend on the industry companies that require large initial investments will generally have lower return on assets. Return on assets is an indicator of how profitable a company is before leverage, and is compared with companies in the same industry.

Since the figure for total assets of the company depends on the carrying value of the assets, some caution is required for companies whose carrying value may not correspond to the actual market value. Return on assets is a common figure used for comparing performance of financial institutions (such as banks), because the majority of their assets will have a carrying value that is close to their actual market value. Return on assets is not useful for comparisons between industries because of factors of scale & peculiar capital requirements (such as reserve requirements in the insurance and banking industries). Return on assets is one of the elements used in financial analysis using the Du Pont Identity.

$$\text{Return on Assets} = \frac{\text{Net Profit after Tax}}{\text{Total assets}} \times 100$$

With the help of the following Table it can be seen more clearly.

Table: 4.7

Comparative Analysis of Return on Assets (IN %)

YEARS	BANKS						
	EBL	SBI	NBBL	HBL	SCB	NABIL	NMB
2007	1.4	1.83	-14.63	1.47	2.42	2.72	0
2008	2	1.44	6.35	1.76	2.46	2.32	0.82
2009	1.73	1.02	18.04	1.91	2.53	2.55	0
2010	2.09	1.03	8.15	1.19	2.7	2.37	1.21
2011	2.1	1.01	3.85	1.91	2.55	2.43	1.39
Mean	**1.86**	**1.27**	**4.35**	**1.65**	**2.53**	**2.48**	**0.68**
SD	0.27	0.33	10.64	0.28	0.10	0.14	0.59
C.V	0.14	0.26	2.45	0.17	0.04	0.06	0.86

Source: Appendix-X

From the table 4.7, it is revealed the ratios of all the banks are fluctuated. The average ratio on Return on assets of EBL is 1.86%. The highest ratio of EBL is 2.09% in the year 2010 then after it is in decreasing trend and the lowest ratio is

1.4% in the year 2007. The ratios of SBI are less fluctuating than EBL as well as others. The highest ratio is 1.83% in the year 2007 and the lowest ratio is 1.01% in 2011. The average ratio is 1.27%. The ratio of NBBL is highly fluctuating then other sample bank the average ratio is 4.35%. The highest ratio is 18.04% in the year 2009 and the lowest ratio is 3.85%. Where in the 2007 there is negative value that is -14.63% of NBBL. The ratio is higher than other sample bank NBBL has higher Return on assets i.e. 4.35% compare to other sample bank. HBL, SCB and NABIL is less fluctuating the average ratio is 1.65%, 2.53% and 2.48% simultaneously and Has highly consistent to average ratio during the study period. The average ratio of NMB is 0.68% and it is highly inconsistent to average ratio. The average ratio of NMB is 5.08% during the study period. NMB is highly fluctuating on 2007 and 2009 the Return on assets are 0%. It shows that Return on assets of NBBL, SCB and NABIL are satisfactory but poor of NMB. With the help of the following figure it can be seen more clearly.

Figure: 4.7

Analysis of Return on Assets

Source: Table 4.7

4.1.1.8 Weighted Average Interest Spread

In banking, the net interest rate spread is the difference between interest earned on loans, securities, and other interest-earning assets and the interest paid on deposits and other interest-bearing liabilities. Intuitively, net interest rate spread is similar to profit margin. In general, the larger a bank's interest rate spread, the more it earns and the more it is therefore worth. When interest rates change, however, the interest a bank receives on its assets and pays on its liabilities fluctuates and can decrease income. Thus, it is important to monitor changes in net interest rate spreads as well as the size of those spreads. With the help of the following table comparison study of weighted average interest spread can be seen more clearly.

$$\text{Weighted average Interest spread} = \frac{\text{Total per loan weight factor}}{\text{Total loan}}$$

Table: 4.8

Comparative Analysis of Weighted Average Interest spread (IN %)

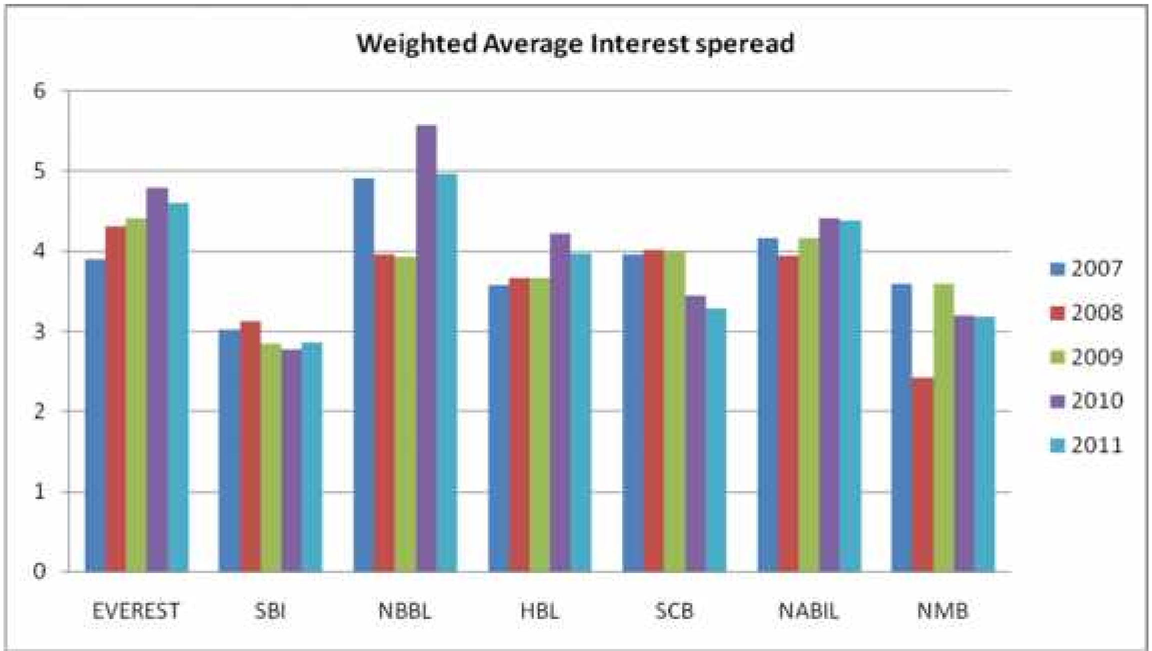
YEARS	BANKS						
	EBL	SBI	NBBL	HBL	SCB	NABIL	NMB
2007	3.9	3.01	4.9	3.57	3.95	4.15	3.58
2008	4.3	3.11	3.95	3.66	4.01	3.94	2.41
2009	4.4	2.84	3.92	3.66	3.98	4.16	3.58
2010	4.78	2.76	5.56	4.21	3.44	4.4	3.19
2011	4.6	2.86	4.96	3.96	3.28	4.37	3.18
Mean	**4.40**	**2.92**	**4.66**	**3.81**	**3.73**	**4.20**	**3.19**
SD	0.30	0.13	0.63	0.24	0.31	0.17	0.43
C.V	0.07	0.04	0.14	0.06	0.08	0.04	0.13

Source: Appendix-XI

From the table 4.8, it is presented the facts that all banks have average ratio of weighted average interest spread. As compared to each sampled banks, SBI have maintained below 3% range but EBL, NBBL, HBL, SCB, NABIL and NMB have above 3%. From this table and figure 4.8, it can be seen that the weighted average interest spread of all banks are in slightly fluctuating trend but in the last year of the study or 2011, the ratios of each bank are in decreasing trend expect SBI. This implies that the banks have maintained as possible as low level of interest spread. With the help of the following figure it can be seen more clearly.

Figure: 4.8

Comparative Analysis of Weighted Average Interest Spread



Source: Table 4.8

4.1.1.9 Net Interest Income

Net interest income (NII) is the difference between revenues generated by interest-bearing assets and the cost of servicing (interest-burdened) liabilities. For banks, the assets typically include commercial and personal loans, mortgages, construction loans and investment securities. The liabilities consist primarily of customers' deposits. NII is the difference between (a) interest payments the bank receives on loans outstanding and (b) interest payments the bank makes to customers on their deposits.

NII = (interest payments on assets) − (interest payments on liabilities)

Depending on a bank's specific assets and liabilities (e.g., fixed or floating rate), NII may be more or less sensitive to changes in interest rates. If the bank's liabilities reprice faster than its assets, then it is said to be "liability-sensitive." Further, the bank is asset-sensitive if its liabilities reprice more slowly than its assets in a changing interest-rate environment. The exposure of NII to changes in interest rates can be measured by the dollar maturity gap (DMG), which is the difference between the dollar amount of assets that reprice and the dollar amount of liabilities that reprice within a given time period.

Net interest income is the difference between interest received from assets and interest paid on liabilities. The difference between the revenue that is generated from a bank's assets and the expenses associated with paying out its liabilities. A typical bank's assets consist of all forms of personal and commercial loans, mortgages and securities. The liabilities are, of course, the customer deposits. The excess revenue that is generated from the spread between interest paid out on deposits and interest earned on assets is the net interest income. The net interest income of some banks is more sensitive to changes in interest rates than others. This can vary according to several factors, such as the type of assets and liabilities that are held. Banks with variable rate assets and liabilities will obviously be more vulnerable to changes in interest rates than those with fixed-rate assets. Banks with liabilities that reprice more often or quicker than its assets will also be affected by interest rate changes.

The formula for net interest income is:

Net Interest Income = Interest income - Interest expenses

Table: 4.9

Comparative Analysis of Net Interest Income

(Rs. In Thousands)

YEARS	BANKS						
	EBL	SBI	NBBL	HBL	SCB	NABIL	NMB
2007	627,242	418,855	549,978	1,008,171	998,927	1,032,049	97,680
2008	916,048	515,595	430,279	1,139,902	1,119,465	1,220,260	112,314
2009	1,173,941	635,745	927,336	1,407,420	1,343,435	1,645,206	148,322
2010	1,529,661	826,011	690,840	1,595,075	1,466,369	2,087,617	306,638
2011	1,795,150	1,008,194	678,811	1,911,333	1,715,599	2,311,578	438,934

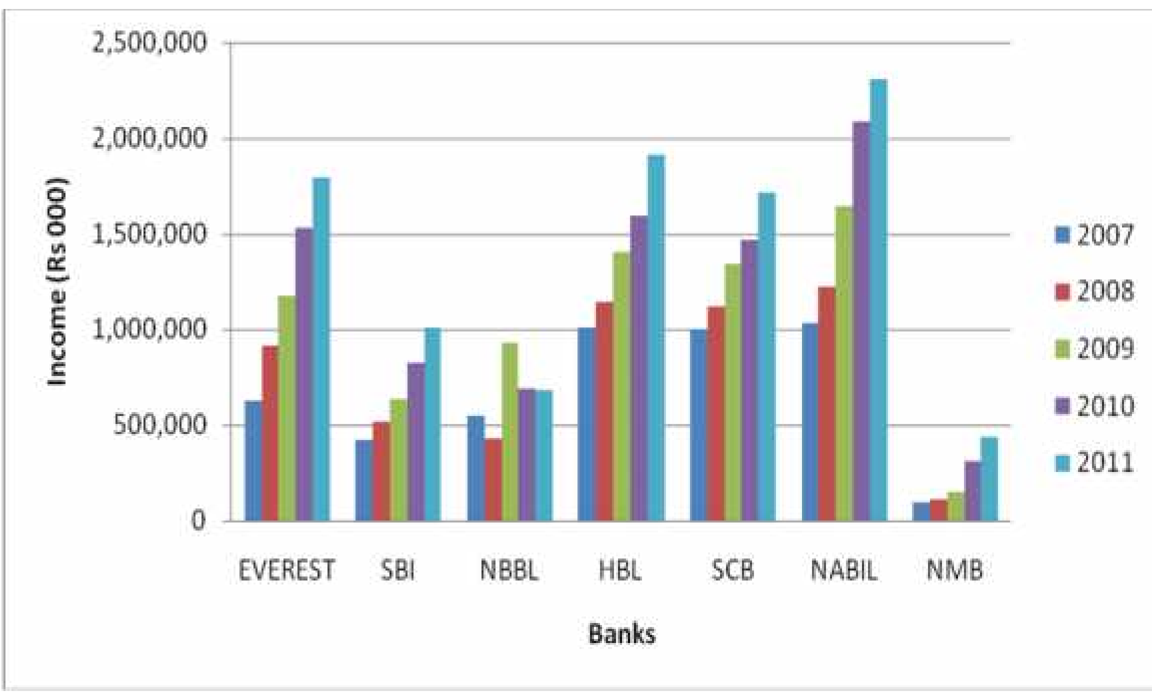
Source: Appendix-XII

From the table 4.9, it is portrayed that the net interest income are variable in all banks. The net interest income of EBL is in increasing tread. The highest net interest income is 1,795,150 (in thousands) in 2011 and the lowest net interest income is 627,242 (in thousands) in 2007. Similarly the entire sample bank of net interest income is in increasing trend except NBBL. Among the sample bank from the latest sample data NABIL have the highest net interest income i.e. 2,311,578 (in thousands) in 2011, then after HBL i.e. 1,911,333 (in thousands) in 2011. In the other hand the lowest net interest is NMB bank i.e. 438,934 (in thousands) in 2011 and then after NBBL i.e. 678,811 (in thousands) in 2011. Banks with variable rate assets and liabilities will obviously be more vulnerable to changes in interest rates than those with fixed-rate assets. The net interest income of some banks is more sensitive to changes in interest rates than others. This can vary according to several factors, such as the type of assets and liabilities that are held.

Banks with liabilities that reprice more often or quicker than its assets will also be affected by interest rate changes. With the help of the following figure it can be seen more clearly.

Figure: 4.9

Comparative Analysis of Net Interest Income



Source: Table 4.9

4.2 Analysis of Primary Data

In order to examine the foreign Bank in Nepalese Banking Industry, factor affecting to inaugurate the Foreign Bank in Nepalese Banking Industry and analyze and Government and NRB Rules, regulation & policies, primary information were collected from the respondents of the questionnaire. Top level banking professionals and managers who have adequate knowledge of banking industry and long time experiences were respondents. There were 15 questions in total. As per the nature of information required the questionnaire was developed under the different categories.

First 4 questions were formulated to examine and important of foreign Bank in Nepalese Banking Industry. Second 5 questions were formulated to analyze the Nepalese environment, Government policies and requirement for Foreign Banking industry. Third 5 questions were formulated to analyze the promotional role of Foreign Bank in Nepalese Banking market. Last 2 questions were generated to examine the problems and their dominations.

As per the scientific questionnaire rule there were formulated cross check questions to minimize the fake and false information.
The summary of the respondents response for each of the identified factors are presented in this section are presented in this section separately. All the necessary information and calculations for this section are presented in appendix.

4.2.1 Question to Examine the Foreign Bank in Nepalese Economy

Under this topic, 4 questions were formulated and analyzed separately the respondents' views as follows:

4.2.1.1 Foreign Bank is necessary in Nepalese Banking Industry.

The responses of the respondents for the question were fund as shown in table 4.10

Table 4.10

Foreign Bank is necessary in Nepalese Banking Industry

S. No.	Responses	No. Respondent	Percentage (%)
1	Strongly Disagree	7	14
2	Disagree	5	10
3	Neutral	3	6
4	Agree	27	54
5	Strongly Agree	8	16
	Total	50	100%

Source: Appendix- XX

From the primary responses, it is found that 54% of the respondents were agreed that the foreign Bank is necessary in Nepalese Banking market. This is the more than 50% of total respondents. Here we found 14% of the respondents were strongly disagreeing and 10% of them were Disagree. With the statement 3 respondent were neutral neither agree nor disagree. By this data, it is depicted that the Nepalese market need the foreign Bank.

4.2.1.2 Foreign Banking Industry plays a great role to develop industrial sector of the country.

The responses of the respondents for the question were found as shown in table 4.11

Table 4.11

Foreign Banking Industry plays a great role to develop industrial sector of the country

S. No.	Responses	No. Respondent	Percentage (%)
1	Strongly Disagree	4	8
2	Disagree	3	6
3	Neutral	2	4
4	Agree	30	60
5	Strongly Agree	11	22
	Total	50	100%

Source: Appendix- XX

From the primary responses, it is found that 60% of the respondents were agreed that the foreign Bank is necessary in Nepalese Banking market. This is more than half of the respondents. Here we found 8% of the respondents were strongly disagree and 6% of them were Disagree. In the above mention statement 2 respondent were neutral neither agree nor disagree. By this data, it is depicted that the foreign Banking industry play a great role to develop industrial sector of the country.

4.2.1.3 Foreign Investment is one of the important engines of Economic Development

The responses of the respondents for the question were found as shown in table 4.12

Table 4.12

Foreign Investment is one of the important engines of Economic development

S. No.	Responses	No. Respondent	Percentage (%)
1	Strongly Disagree	9	18
2	Disagree	12	24
3	Neutral	3	6
4	Agree	17	34
5	Strongly Agree	9	18
	Total	50	100%

Source: Appendix-XX

From the primary response, it is found that only 34% of the respondents were agreed on foreign investment. 18% of the respondents were found strongly disagreed and 24% were Disagree with the statement. But in total agree and strongly agree respondents are more that 50%. By this data, it is revealed that the statement is appropriate in the economy.

4.2.1.4 Foreign Bank presence only in the joint venture is not satisfactory

The responses of the respondents for the question were found as shown in table 4.13

Table 4.13

Foreign Bank presence only in the joint Venture is not satisfactory

S. No.	Responses	No. Respondent	Percentage (%)
1	Strongly Disagree	3	6
2	Disagree	18	36
3	Neutral	9	18
4	Agree	14	28
5	Strongly Agree	6	12
	Total	50	100%

Source: Appendix- XX

From the primary response of the respondents, it is found that 28% of the respondents were agreed and 14% were strongly agreed it show less than 50% of the respondents. Only 36% were found disagreed and 6% are strongly Disagree with the statement the majority is Disagrees. Thus, form the primary data it is found those respondents are high in disagreeing on this statement.

4.2.1.5 No special provision, appropriate policy, directives & rules are prepared by Government and NRB's

The responses of the respondents for the question were found as shown in table 4.14

Table 4.14

No special provision, appropriate policy, directives & rules are prepared by Government and NRB's

S. No.	Responses	No. Respondent	Percentage (%)
1	Strongly Disagree	4	8
2	Disagree	7	14
3	Neutral	1	2
4	Agree	33	66
5	Strongly Agree	5	10
	Total	50	100%

Source: Appendix- XX

From the primary responses, it is found that 66% of the respondents were agreed and 10% were strongly agreed on the above mention statement. This is the more than 70% of total respondents. Here we found 8% of the respondents were strongly disagreeing and 14% of them were Disagree. With the statement 2 respondent were neutral neither agree nor disagree. By this data, it is depicted that more than 70% respondent are agree.

4.2.1.6 Political instability, government rules and directives effect to inaugurate the foreign Bank

The responses of the respondents for the question were found as shown in table 4.15

Table 4.15

Political instability, government rules and directives effect to inaugurate the foreign Bank

S. No.	Responses	No. Respondent	Percentage (%)
1	Strongly Disagree	1	2
2	Disagree	3	6
3	Neutral	5	10
4	Agree	36	72
5	Strongly Agree	5	10
	Total	50	100%

Source: Appendix- XX

From the primary responses it is found that approximately 70% respondents were agree that there is political instability, government rules and directives affect to inaugurate the foreign Bank in Nepal. The majority respondents more than i.e. 80% were agree to this statement. The data reveals the fact that the statement is favorable to the statement.

4.2.1.7 Fear of insecure to investment in Nepalese market

The responses of the respondents for the question were found as shown in table 4.16

Table 4.16

Fear of insecure to investment in Nepalese market

S. No.	Responses	No. Respondent	Percentage (%)
1	Strongly Disagree	2	4
2	Disagree	7	14
3	Neutral	3	6
4	Agree	29	58
5	Strongly Agree	9	18
	Total	50	100%

Source: Appendix- XX

By observing the primary response of the respondents, it is found that 58% of the respondents were agreed that fear of insecure to investment in Nepalese market. Only 14% respondents were found disagreed and 4% are strongly disagree with this statement. Therefore, it is revealed the fact that fear to invest in Nepalese baking industry is appropriate.

4.2.1.8 Lack of relevant rule, proper inspections & supervision by NRB

The responses of the respondents for the question were found as shown in table 4.17

Table 4.17

Lack of relevant rule, proper inspections and supervision by NRB

S. No.	Responses	No. Respondent	Percentage (%)
1	Strongly Disagree	3	6
2	Disagree	5	10
3	Neutral	5	10
4	Agree	24	48
5	Strongly Agree	13	26
	Total	50	100%

Source: Appendix- XX

By analyzing the primary response of the respondents, it is found that more than 70% of the respondents were agreeing and strongly agreeing with the statement that lack of relevant rule, proper inspections and supervision by NRB. Only 16% respondents were strongly disagreeing and disagree with the statement.

4.2.1.9 Domestic Bank is sufficient to Nepalese economy

The responses of the respondents for the question were found as shown in table 4.18.

Table 4.18

Domestic Bank is sufficient to Nepalese economy

S. No.	Responses	No. Respondent	Percentage (%)
1	Strongly Disagree	2	4
2	Disagree	3	6
3	Neutral	7	14
4	Agree	27	54
5	Strongly Agree	11	22
	Total	50	100%

Source: Appendix- XX

By analyzing the primary response of the respondents it is found that 54% of the respondents were agree that the Domestic Bank is sufficient to Nepalese Economy. Only 4% and 6% respondents were strongly disagreeing and disagreeing simultaneously with the statement. Since majority of them were agreed, it is revealed the fact that the Domestic Bank is sufficient to Nepalese Economy

4.2.1.10 Foreign Bank industry Support to invest on Hydro power project

The responses of the respondents for the question were found as shown in table 4.19

Table 4.19

Foreign Bank industry Support to invest on Hydro power project

S. No.	Responses	No. Respondent	Percentage (%)
1	Strongly Disagree	2	4
2	Disagree	7	14
3	Neutral	9	18
4	Agree	17	34
5	Strongly Agree	15	30
	Total	50	100%

Source: Appendix- XX

From the primary response, it is found that 34% of the respondents were agreed that Foreign bank industry support to invest on Hydro power project. Only 7% respondents were found disagree with the statement and 18% of respondent were neutral they don't agree or disagree. By this data it is revealed the fact that most of them were agree to foreign bank industry support to invest on Hydro power project.

4.2.1.11 National securities are the main problem to inaugurate the foreign bank

The responses of the respondents for the question were found as shown in table 4.20

Table 4.20

National securities are the main problem to inaugurate the foreign bank

S. No.	Responses	No. Respondent	Percentage (%)
1	Strongly Disagree	5	10
2	Disagree	4	8
3	Neutral	0	0
4	Agree	26	52
5	Strongly Agree	15	30
	Total	50	100%

Source: Appendix- XX

From the primary response, it is found that 52% of the respondents were agree and 30% were strongly agree that National securities are the main problem to inaugurate the foreign bank. Here 18% respondents were found strongly disagree and disagree with the statement. By the analysis of the data, the fact revealed that the National securities are the main problem to inaugurate the foreign Bank.

4.2.1.12 Foreign Banking industries play a promotional role to increase Foreign Direct Investment

The responses of the respondents for the question were found as shown in table 4.21

Table 4.21

Foreign Banking industries play a promotional role to increase Foreign Direct Investment

S. No.	Responses	No. Respondent	Percentage (%)
1	Strongly Disagree	17	34
2	Disagree	11	22
3	Neutral	0	0
4	Agree	12	24
5	Strongly Agree	10	20
	Total	50	100%

Source: Appendix- XX

By analyzing the primary response of the respondents it is found that 34% of the respondent are strongly disagree and 22% were disagree that the Foreign banking industries play a promotional role to increase foreign direct investment. Only 24% respondents were found agree and 20% were strongly agree with the statement. By the analysis if this data it is found that disagree respondent were more than agree respondent with the statement.

4.2.1.13 Presence as a joint venture Bank is adequate to Nepalese economy

The responses of the respondents for the question were as shown in table 4.22

Table 4.22

Presence as a joint venture Bank is adequate to Nepalese economy

S. No.	Responses	No. Respondent	Percentage (%)
1	Strongly Disagree	7	14
2	Disagree	12	24
3	Neutral	5	10
4	Agree	15	30
5	Strongly Agree	11	22
	Total	50	100%

Source: Appendix- XX

From the primary response, it is found that 30% and 22% were agree and disagree of the respondents that presence as a joint venture bank is adequate to Nepalese economy. This is the almost more than 50% of the respondents. 10% of the respondents are neutral. Only 24% and 14% respondents were found disagreed and strongly disagreed with the statement. By the analysis of the data the fact revealed that presence as a joint venture Bank is adequate to Nepalese economy.

4.2.1.14 Foreign bank domination will increase and create problem in Nepalese Banking industry

The responses of the respondents for the question were found as shown in table 4.23

Table 4.23

Foreign bank domination will increase and create problem in Nepalese Banking industry

S. No.	Responses	No. Respondent	Percentage (%)
1	Strongly Disagree	16	32
2	Disagree	4	8
3	Neutral	0	0
4	Agree	12	24
5	Strongly Agree	18	36
	Total	50	100%

Source: Appendix- XX

From the primary response, it is found that 24% and 36% of the responses were agreed that foreign bank domination will increase and create problem in Nepalese Banking industry. 32% and 8% respondents were found strongly disagree and disagree with the statement. It shows that most of the respondent were satisfied with the foreign banking domination will increase and create problem in Nepalese Banking industry.

4.2.1.15 There is no meaning to open foreign bank in Nepalese Economy

The responses of the respondents for the question were found as shown in table 4.24

Table 4.24

There is no meaning to open foreign bank in Nepalese Economy

S. No.	Responses	No. Respondent	Percentage (%)
1	Strongly Disagree	5	10
2	Disagree	12	24
3	Neutral	8	16
4	Agree	17	34
5	Strongly Agree	8	16
	Total	50	100%

Source: Appendix- XX

From the primary response, it is found that 34% and 16% of the respondents were agreed and strongly agree that there is no meaning to open foreign bank in Nepalese economy. This is the half respondents. Only 24% and 10% respondents were found disagree and strongly disagree with the statement. By the analysis if the data the fact revealed that no meaning to open foreign bank in Nepalese Banking industry.

4.2.2 Why foreign bank industry is necessary in Nepalese Banking industry?

This question was formulated to find out the necessary of foreign banking industry in Nepal and the respondents were asked this open-end question to suggest the researcher about the why foreign bank industry is necessary in Nepalese Banking industry. The following major problems were suggested by the respondents:

- To assist Nepalese economic market
- Foreign investment for economic development of the country
- Nepal is the WTO member country.
- It help to alleviate the fund crises to invest industrial and Hydro power sector

4.2.3 What is the role of the government to open foreign bank in Nepal?

The respondents were asked an open-end question to suggest the researcher about the existing role of the government to open foreign bank in Nepal. The respondents suggested about the following existing role.

- Banking and investment environment to foreign bank
- Conduct promotional activities
- Ensure regarding the National securities.
- Flexible government rule and regulation

4.2.4 What types of techniques should be adopted by the government?

To find out the ways of effective technique to adopt by the government an open-end question was asked to the respondents. The respondents suggested the following idea about effective technique to adopt by the government.

- Clear monetary policies
- Allocate budget in different field
- Clear legal, regulatory & supervisory provision
- About the National securities.

4.2.5 What is the reason to open foreign bank in Nepal?

- To develop economical condition of the country
- Investment in Hydro power Project
- Investment will increase in industrial sector
- Employment opportunities in the country

4.2.6 What is the main problem to open foreign bank in Nepal?

- Investment environment
- Political instability & security reason
- Government and NRB rules and directives
- Small and risky economical condition

4.3 Major Finding of the Study

As per the nature of the data the empirical findings of the study can be categorized in two parts and explained as follows:

4.3.1 Major findings of the Secondary Data Analysis.

During the study, all the secondary data has been analyzed by using financial as well as statistical tools. This topic focused on the major findings from the secondary data analysis, which are derived from the analysis of presence of foreign Joint venture Bank in Nepalese Banking industry of seven commercial banks named EBL, SBI, NBBL, HBL, SCB, NABIL and NMB with comparatively applying five Years data from 2007-2011. The major findings of the study drawn from the analysis of secondary data and sampled banks are given below.

- Core capital to Risk Weighted Assets of NBBL is high and EBL is too low. This implies that the core capital to risk weighted assets of NBBL has riskiest and EBL is strong.
- Capital Fund to Risk weighted assets ratio of NBBL is Negative. EBL and NABIL have moderate to figure to capital fund to risk weighted assets. But SBI and SCB are in average position.
- As prescribed by NRB, CD ratio should be 80%. Credit to Deposit ratio of SCB is very low NABIL and EBL have moderate position.
- Liquid assets to total assets ratio of SBI have low and NMB have very high among other sample bank. Other sample banks are in moderate position.

- Liquid assets to Total deposit ration of NMB have very high. EBL, SBI, HBL, SCB and NABIL efficient to utilize liquid assets to total deposit are in moderate.
- Non-performing loan to Total loan of NBBL is highest and EBL is lowest which means that NBBL is in high risk to collecting its loan form client but EBL is doing well. It is depicted that the risk is high in NBBL and other are in average.
- Return on assets of NBBL is high and EBL, SBI and HBL are in average position. Rest of two banks SCB and NABIL have slightly higher and NMB have lowest return of assets.
- All banks have maintained around 2-4% average of weighted average interest spread which may be average in weighted average interest spread position.
- Net interest income of EBL, HBL and SCB have higher than other sample bank and NMB have lowest net interest income compare to all of the sample bank. NABIL have highest net interest income. Thus the interest income position of NABIL is strong.

4.3.2 Major Findings from the Primary Data Analysis

From the primary data regarding the foreign Bank in Nepalese banking Industry are following major finding are drawn out:

a. Foreign banks are necessary in our economy market to mobilize the natural resources to utilize in productive ways. As per the respondent are it will be well for the country if foreign bank will establish in our country.

b. Due to the foreign banking investment it helps to develop industrial sector of the country.

c. There is many factors affect the economy position of the country. First are internal factors like national security, political condition, budget, economy policies, per capita income etc. In the other hand like lending policy of banks, management capacity, NRB rules and regulation, foreign direct investment, remittance, foreign bank and government and NRB strategic planning and funds flow situations.

d. Foreign bank presence only in the joint venture Bank is not sufficient. Country needs the foreign investment to develop economical sector of the country.
e. No special provision, appropriate policies, directive and rules was prepared by Government and NRB monitoring and mobilizing Foreign bank.
f. NRB's and government interventions are necessary to inaugurate foreign bank in Nepal.
g. The main problems about to open foreign bank in Nepal are:
    - Political instability
    - Small and risky economic condition
    - Government failing to make clear monetary policies
    - National securities
    - Negligence of Government and regulatory body
    - Lack of proper inspection and supervision of NRB and flexible management.
    - Underdeveloped market for foreign investment creating financial instrument and lack if manpower to risk analysis.
h. Presence of foreign bank in Nepalese Banking industry will assist in different sector they are as below:
    - Foreign bank in Nepal is beneficial to Nepalese economy
    - Foreign Banks play a great role to develop industrial sector of the country
    - Its play a supportive role on economic growth of the country
    - Increase in employment of the country
    - It helps to alleviate the fund crises to invest industrial sector and Support to invest on Hydro power project
    - Supportive role to government and encouragement to enlarge the Domestic Banking areas.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, summary and conclusion of the study as well as recommendations are presented separately. After summarizing and concluding the study, recommendations are suggested for the foreign joint venture bank in Nepal. The researcher has tried to give suggestions and recommendations to the concerned groups, commercial banks, Nepal Rastra Banks, banking professionals, governments and further researcher based in this study.

5.2 Summary

Basically, the entire study work has focused in the foreign bank in Nepalese banking industry with special reference to foreign joint venture bank in Nepalese banking industry in Nepal. It is separated into three parts: first, to collected information and examined the existing legal, regulatory and supervisory provisions in Nepal. Second, is to made comparative analysis in this regard, for identified SEACHEN countries two in south Asia (India and Sri Lanka) and two in East Asia (Indonesia and Thailand). Third, from this comparative analysis of foreign joint venture Bank and primary data collection highlighted gaps and recommendations were provided then after Comparative study in major financial indicator of foreign Joint venture banks in Nepal. For the study seven foreign joint venture commercial banks (i.e. EBL, SBI, NBBL, HBL, SCB, NABIL and NMB) were taken as sample and analyzed their major financial indicators practice by taking five years secondary data from 2007 to 2011 as well as primary data. The objective of the study is to find out and analyzes the foreign bank in Nepalese banking industry and its requirement with special reference of major financial indicator of foreign joint venture banks in Nepal. The objective is to observe the foreign bank policies, analyze the problem to establish foreign bank, affecting factor to inaugurate foreign bank, its effectiveness in

Nepalese banking industry in the other hand analysis the major financial indicator of foreign joint venture bank in Nepalese banking industry.

To fulfill the research objectives the study is divided into five chapters.

In the first chapter, brief introduction of foreign bank in Nepalese banking industry, focus of the study, significance of the study, research objectives, foreign bank in the context of WTO and SEACEN centre, statement of the problem, objective of the study, limitation of the study and research scheme are included. In the second chapter, theoretical review has been made. Different theories policies, rules and regulations about foreign bank are reviewed. During the study different books, journals, previous studies, websites, reports are viewed and visited to different professionals to know the policies and condition of the foreign bank in Nepal. Research design, population and sample and analysis tools are included in the third chapter. The data are collected from secondary and primary source for the study. The secondary data are collected from annual papers if sample banks, SEBO/N and Nepal Rastra Bank. The primary data and information are collected from the questionnaire. After collecting the data from different source it is analyzed by using major financial indicator and statistical tools and techniques. As attempt has been made to fulfill the objectives of the research work in chapter four. In this chapter all the secondary as well as primary data are complied, processed and tabulated as per the necessity and figures diagrams are also used to present it clearly. In the chapter five, the summary, conclusion and recommendations are included. The summary of the study, conclusion drawn from the study are presented and necessary suggestions are given to the concern authorities, sample banks as well as foreign Joint venture banks, Nepal Rastra Bank and government for the betterment.

These studies suffer from different limitations it considers seven foreign joint venture banks in Nepal. Time and resources are the constraints of the study. Therefore, the study may not be generalized in all cases and accuracy depends upon the data collected and provided by the organizations and respondents.

5.3 Conclusion

NBBL have negative core capital to risk weighted and EBL has lowest. In the other hand NMB have highest core capital to risk weighted among other sample bank. This implies that the core capital to risk weighted assets of NBBL has riskiest and EBL is strong. NBBL have negative figure in average, Capital Fund to Risk weighted assets ratio of EBL and NABIL have lowest. But other is in average position except NMB. As per the standard prescribed by NRB, CD ratio should be 80%. Credit to Deposit ratio of SCB is very low NABIL and EBL have average figure. Liquid assets to total assets ratio of SBI have low in average i.e. 22.92% and NMB have very high in average i.e. 47.84% among other sample bank. Other sample banks are in moderate figure. More than 150% in average Liquid assets to Total deposit ration of NMB. And other bank EBL, SBI, HBL, SCB and NABIL are in moderate figure. Non-performing loan to Total loan of NBBL is highest i.e. 23.37% in average and the lowest non-performing loan can able to maintain by EBL. This means that NBBL is in high risk than other and EBL is in low risk than other sample bank. NMB have lowest return on assets SCB and NABIL have slightly higher than other. NBBL have higher among other and EBL, SBI and HBL are in average position. All banks have maintained between 2-4% averages of weighted average interest spread which may be average in weighted average interest spread position. NMB have lowest net interest income compare to the entire sample bank. Net interest incomes of EBL, HBL and SCB have higher than other sample bank. NABIL have highest net interest income.

During the study, primary data are also used. For this purpose, research questions are made and asked to the respondents. From the analysis of all the primary data we can concluded that the main problems about to open foreign bank in Nepal be the political instability, small and risky economic condition, government failing to make clear monetary policies, National securities, Negligence of government and regulatory body and lack of proper inspection and supervision of NRB and flexible management etc. Due to the lack of unfavorable investment opportunities in Nepal, foreign banking industry is being difficult and challenging. Foreign banking environment is influenced by the internal factors like national security, political condition, budget, economy policies, per capita income etc. In the other hand like lending policy of banks, management capacity, NRB rules and regulation, foreign direct investment, remittance, foreign bank and government and NRB strategic planning and funds flow situations are major issues. The policies and paperwork of foreign bank in Nepalese banking industry are adequate but not implemented. Foreign banks are necessary in our economy market to mobilize the natural resources to utilize in productive ways. As per the respondent are it will be well for the country if foreign bank will establish in our country. Investment in Industrial sector of the country will be increase Due to the foreign banking investment in Nepal. Country needs the foreign investment to develop economical sector of the country the presence of foreign bank only in the joint venture Bank is not sufficient. No special provision, appropriate policies, directive and rules was prepared by Government and NRB monitoring and mobilizing Foreign bank. Government and NRB’s interventions are necessary to inaugurate foreign bank in Nepal. As per the primary data we also find that Presence of foreign bank in Nepalese Banking industry will assist in different sector that may be it is beneficial to Nepalese economy, foreign bank play a great role to develop industrial sector and economic growth of the country, increase employment alleviate the fund crises to invest industrial sector and it is supportive to invest on Hydro power project.

5.4 Recommendations

Suggestion is the output of the whole study. It helps to take corrective action in their activities in future. Different analysis is done to arrive this step. On the basis of above analysis and findings of the study following suggestions and recommendations may be referred to overcome weakness, inefficiency to foreign banking industry and for corrective action for the concern authorities, professionals, government, NRB and other researchers.

To the foreign Joint Venture Bank in Nepal

- EBL should decreased Weighted average interest spread
- CD ratio should maintain 80% as per NRB regulation to all foreign joint venture banks.
- SBI have non-performing load should decrease otherwise it will be riskiest and its return on assets is low.
- NBBL has negative Core capital to risk weighted it need to maintain over view on this matter. Similarly, capital fund to risk weighted is poor it must be improve. Non-performing is highly fluctuating it need to bring down it is the most risky part of the bank. Net interest income is also too low compare to other bank. Return of assets is in negative it must be improve.
- HBL should maintain decrease Non-performing loan.
- SCB has slightly fluctuating weighted average interest spread need to overview
- Non-performing loan is increasing trend of NABIL it should be balance and weighted average interest spread should be notice.
- NMB should balance weighted average interest spread.

To All Commercial Banks

Based on the findings of the study, following points are suggested:

- Analysis of financial indicator should be prepared quarterly basis and send to NRB within 7 days of the completion of the date.
- An effort should be made on human resource development on the risk analysis management and banking financial position.
- Satisfied employees are the backbone of the bank. So, necessary steps should be forwarded to develop satisfied and obedient employees, which may reduce the problems of bank defaulters and corruptions.

TO NRB

NRB is the regulatory body of all commercial bank. Rules and regulations are made and implemented by the central bank to commercial banks. So, as a central bank NRB suggested the following points.

- Regular monitoring & evaluation should be made on foreign banking industry.
- As a central bank, NRB has a duty to regulate the commercial banks. So, those commercial banks, which do not send the data in time should be made alert, the received data should be analyzed and stored for future reference.
- It is very difficult to collect the necessary data by going bank to bank and related banks also feel a burden to response the research student. So, NRB should play a role of data bank. To make it easier, the data should be stored in computer and copied in soft copy of Floppy Diskettes, CDs, pen Drive etc.

TO The Professionals

A bank can be an efficient and successful in management with the help of dedicated professionals. Banking professionals are the life blood of the bank. So, the following points are suggested to the profession:

- Professional bankers should be more dedicated to the profession and should apply banking tools more effectively.
- Theoretical and practical knowledge should be tied up by implementation in the banking operation.
- Refreshment training should be taken for the knowledge enhancement on risk analysis and banking policies.
- Brain storming and group discussion programmer should be made to search further investment opportunities.

TO Other Researchers

This study may be helpful to fulfill the gap of proper study in foreign bank in Nepalese banking industry with special reference of foreign Joint venture banks in Nepal. It may provide the knowledge about the foreign bank in Nepal and presence of foreign Joint venture banks in Nepal. This study covers the existing foreign banking policies, existing position and its trend, factors affecting the foreign bank and banking tools for foreign banking industry in Nepal. The further study and analysis, this study may be the guideline to other researchers is suggested to study about the effect and factor of foreign b

APPENDIX- I

Financial companies in Nepal on Mid-June 2012

Institutions	1980	1985	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012
Commercial Banks	2	3	5	10	13	17	18	20	25	26	27	31	32
Development Banks	2	2	2	3	7	26	28	38	58	63	79	87	86
Finance companies				21	45	60	70	74	78	77	79	79	77
Micro-Finance				4	7	11	11	12	12	15	18	21	21
Saving & credit co-operatives limited				6	19	20	19	17	16	16	15	16	16
NGO's					7	47	47	47	46	45	45	38	38
TOTAL	4	5	7	44	98	181	193	208	235	242	264	272	270

Source: Nepal Rastra Bank

APPENDIX-II

Foreign joint venture Bank in Nepal

S. N.	Bank	Date of Operate	Paid up share capital (Rs. In Millions)	Foreign share (%)	Foreign Bank
1.	Nepal SBI Bank	2050-3-23	877.4	50	State Bank of India: India
2.	Everest Bank ltd	2051-7-1	831.4	20	Punjab National bank: India
3.	NABIL Bank	2041-3-29	689.2	50	National Bank ltd: Bangladesh
4.	Standard charter Bank Nepal ltd	2043-10-16	620.8	75	Standard chartered Grind lays Bank ltd. Australia & UK
5.	Nepal Bangladesh Bank	2051-2-23	744.1	25	IFIC Bank Bangladesh
6.	Himalayan Bank	2049-10-5	1013.5	20	Habib Bank ltd
7.	NMB Bank	2065-2-20	1000	15	Young lien Reality SDN BHD: Malaysia

Source: *Nepal Rastra Bank*

Table 1.2

APPENDIX-III

Member Bank of SEACEN Centre:

S. no.	Central Bank of the Country	Country
1.	Autoriti monetari Brunei Darussalam	Brunei
2.	National Bank of Cambodia	Cambodia
3.	Reserve bank of Fiji	Fiji
4.	People’s Bank of china	China
5.	The Bank of Korea	Korea
6.	Bank of Indonesia	Indonesia
7.	The bank of Mongolia	Mongolia
8.	Bank Negara Malaysia	Malaysia
9.	Nepal Rastra bank	Nepal
10.	Central bank of Myanmar	Myanmar
11.	Bangko sentral ng pilipinas	Philippines
12.	Bank of Papua New Guinea	Papua New Guinea
13.	Central bank of Sri Lanka	Sri Lanka
14.	Monetary authority of Singapore	Singapore
15.	Bank of Thailand	Thailand
16.	Central bank, Chinese Taipei	Taipei
17.	State bank of Vietnam	Vietnam

Sources: Nepal Rastra Bank

APPRENDIX-IV

Core Capital to Risk Weighted Assets

Table: 4.1 (IN %)

YEARS	BANKS						
	EVEREST	SBI	NBBL	HBL	SCB	NABIL	NMB
2007	7.8	10.53	-23.55	9.61	13.77	10.4	11.76
2008	9.04	9.97	-18.17	9.64	12.15	8.75	32.66
2009	8.52	10.03	4.42	8.81	13.05	8.74	18.42
2010	8.39	10.89	11.74	8.68	12.61	8.77	17.53
2011	8.46	10.32	10.53	8.88	12.1	8.83	15.51
Mean	**8.44**	**10.35**	**-3.01**	**9.12**	**12.74**	**9.10**	**19.18**
SD	0.39	0.34	14.88	0.41	0.62	0.65	7.12
C.V	0.05	0.03	-4.95	0.05	0.05	0.07	0.37

Sample calculation of expected return ($\bar{X}$), standard deviation (|∃) and coefficient of variation (C.V.) are presented below.

For EBL

Here, total return (| x) = 7.8 + 9.04 + 8.52 + 8.39 +8.46

= 42.21

Expected return or Mean ($\bar{X}$) = $\frac{x}{N}$ = $\frac{42.21}{5}$ = 8.442

Where,

N = Number of observation

X = Expected return or mean of the historical data

X = Return of the historical data

Return (x)	Expected Return($\overline{X}$)	X- $\overline{X}$	(X- $\overline{X}$)^2
7.8	8.442	-0.642	0.4122
9.04	8.442	0.598	0.3576
8.52	8.442	0.078	0.0061
8.39	8.442	-0.052	0.0027
8.46	8.442	0.018	0.0003
			(X- $\overline{X}$)^2 =0.7789

Standard Deviation (|∃) = $\sqrt{\dfrac{(X-\overline{X})^2}{N}}$

$= \sqrt{\dfrac{0.7789}{5}}$

= 0.39

Again,

Coefficient of Variation = $\dfrac{\text{Standard Deviation (|∃)}}{\text{Expected Return } (\overline{X})}$

$= \dfrac{0.39}{8.442}$

= 0.05

Likewise, other item has been calculated according to the above analysis.

APPRENDIX-V

Capital Fund to Risk weighted Assets

Table: 4.2 (IN %)

YEARS	BANKS						
	EVEREST	SBI	NBBL	HBL	SCB	NABIL	NMB
2007	11.2	13.29	-23.55	11.13	15.71	12.04	13.31
2008	11.44	12.32	-18.17	13	0.14	11.1	33.96
2009	10.55	11.92	5.55	11.02	14.7	10.7	19.03
2010	10.77	12.25	12.81	10.72	14.6	10.5	18.37
2011	10.43	11.52	9.73	10.68	14.22	10.58	16.39
Mean	**10.88**	**12.26**	**-2.73**	**11.31**	**11.87**	**10.98**	**20.21**
SD	0.38	0.59	15.08	0.86	5.89	0.57	7.16
C.V	0.04	0.05	-5.53	0.08	0.50	0.05	0.35

APPRENDIX-VI

Credit to Deposit Ratio

Table: 4.3 (IN %)

YEARS	BANKS						
	EVEREST	SBI	NBBL	HBL	SCB	NABIL	NMB
2007	77.4	82.66	96.91	56.57	43.78	68.13	112.02
2008	79	88.32	87.01	61.23	46.95	68.18	120.96
2009	73.43	55.84	91.33	71.49	38.7	73.87	76.78
2010	74.61	51.48	78.26	74.39	45.98	69.37	78.44
2011	76.98	51.2	88.93	80.57	49.11	78.29	88.16
Mean	**76.28**	**65.90**	**88.49**	**68.85**	**44.90**	**71.57**	**95.27**
SD	2.00	16.18	6.10	8.76	3.54	3.97	17.98
C.V	0.03	0.25	0.07	0.13	0.08	0.06	0.19

APPRENDIX-VII

Liquid Assets to Total assets Ratio

Table: 4.4 **(In %)**

YEARS	BANKS						
	EVEREST	SBI	NBBL	HBL	SCB	NABIL	NMB
2007	47.11	27.47	28.13	29.6	42.65	24.85	56.25
2008	28.82	27.24	33.5	26.09	40.25	25.07	70.78
2009	30.64	16.85	35.84	21.44	37.43	17.4	59.85
2010	29.42	20.38	31.42	20.23	30.16	23.92	29.51
2011	28.7	22.68	28.8	21.62	39.29	23.5	22.83
Mean	**32.94**	**22.92**	**31.54**	**23.80**	**37.96**	**22.95**	**47.84**
SD	7.12	4.07	2.88	3.52	4.25	2.83	18.45
C.V	0.22	0.18	0.09	0.15	0.11	0.12	0.39

APPRENDIX –VIII

Liquid Assets to Total Deposit

Table: 4.5 (In %)

YEARS	BANKS					
	EVEREST	SBI	HBL	SCB	NABIL	NMB
2007	55.51	33.36	33.02	36.76	29.01	191.82
2008	32.64	34.14	29.64	35.91	29.17	380.31
2009	33.94	18.64	24.31	42.35	20.43	137.97
2010	32.96	22.22	22.97	34.48	26.89	38.6
2011	32.26	24.64	24.7	45.3	27.53	28.3
Mean	**37.46**	**26.60**	**26.93**	**38.96**	**26.61**	**155.40**
SD	9.04	6.15	3.79	4.14	3.21	128.07
C.V	0.24	0.23	0.14	0.11	0.12	0.82

APPRENDIX-IX

Non-Performing loan to Total loan

Table: 4.6 **(in %)**

YEARS	BANKS						
	EVEREST	SBI	NBBL	HBL	SCB	NABIL	NMB
2007	0.8	4.56	39.76	3.61	1.83	1.12	1.73
2008	0.68	3.83	31.73	2.36	0.92	0.74	1.52
2009	0.48	2.02	19.8	2.16	0.66	0.8	0.51
2010	0.16	1.48	6.47	3.52	0.61	1.47	0.7
2011	0.34	1.1	19.18	4.22	0.62	1.77	0.27
Mean	**0.49**	**2.60**	**23.39**	**3.17**	**0.93**	**1.18**	**0.95**
SD	0.23	1.36	11.44	0.79	0.47	0.39	0.57
C.V	0.47	0.52	0.49	0.25	0.50	0.33	0.61

APPRENDIX-X

Return on Assets

Table: 4.7 **(In %)**

YEARS	BANKS						
	EVEREST	SBI	NBBL	HBL	SCB	NABIL	NMB
2007	1.4	1.83	-14.63	1.47	2.42	2.72	0
2008	2	1.44	6.35	1.76	2.46	2.32	0.82
2009	1.73	1.02	18.04	1.91	2.53	2.55	0
2010	2.09	1.03	8.15	1.19	2.7	2.37	1.21
2011	2.1	1.01	3.85	1.91	2.55	2.43	1.39
Mean	**1.86**	**1.27**	**4.35**	**1.65**	**2.53**	**2.48**	**0.68**
SD	0.27	0.33	10.64	0.28	0.10	0.14	0.59
C.V	0.14	0.26	2.45	0.17	0.04	0.06	0.86

APPRENDIX-XI

Weighted Average Interest Spread

Table: 4.8 **(In %)**

YEARS	BANKS						
	EVEREST	SBI	NBBL	HBL	SCB	NABIL	NMB
2007	3.9	3.01	4.9	3.57	3.95	4.15	3.58
2008	4.3	3.11	3.95	3.66	4.01	3.94	2.41
2009	4.4	2.84	3.92	3.66	3.98	4.16	3.58
2010	4.78	2.76	5.56	4.21	3.44	4.4	3.19
2011	4.6	2.86	4.96	3.96	3.28	4.37	3.18
Mean	**4.40**	**2.92**	**4.66**	**3.81**	**3.73**	**4.20**	**3.19**
SD	0.30	0.13	0.63	0.24	0.31	0.17	0.43
C.V	0.07	0.04	0.14	0.06	0.08	0.04	0.13

APPRENDIX-XII

Net Interest Income

Table: 4.9 **(In Thousand)**

YEARS	BANKS						
	EVEREST	SBI	NBBL	HBL	SCB	NABIL	NMB
2007	627,242	418,855	549,978	1,008,171	998,927	1,032,049	97,680
2008	916,048	515,595	430,279	1,139,902	1,119,465	1,220,260	112,314
2009	1,173,941	635,745	927,336	1,407,420	1,343,435	1,645,206	148,322
2010	1,529,661	826,011	690,840	1,595,075	1,466,369	2,087,617	306,638
2011	1,795,150	1,008,194	678,811	1,911,333	1,715,599	2,311,578	438,934

APPRENDIX-XIII

Financial Highlight of Everest Bank Ltd.

Table: 1

Capital and Liabilities	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Capital	647,798	874,528	874,528	1,861,324	2,102,966
Reserves and Surplus	515,492	540,117	838,079	589,230	776,327
Debenture & Bond	200,000	200,000	200,000	200,000	200,000
Borrowing	815,365	1,627,480	727,466	-	0
Deposit	11,445,286	13,715,395	27,957,221	34,896,424	42,415,443
Bills Payable	48,856	75,115	62,947	72,368	80,685
Proposed & Payable dividend	91,024	12,229	24,905	83,080	93,465
Tax Liabilities	-	-	-	-	0
Other Liabilities	137,379	142,582	231,536	345,253	419,347
Total Liabilities	**13,901,200**	**17,187,446**	**30,916,682**	**38,047,679**	**46,088,233**
Cash Balance	287,530	308,102	652,027	815,680	1,007,688
Balance With NRB	556,678	403,810	444,139	1,842,802	2,330,927
Bank Balance with Banks	278,481	631,049	807,740	782,780	1,539,210
Money At call	350,000	304,013	-	-	0
Investment	2,659,453	3,088,887	13,286,182	16,305,633	18,911,021
Loan and Advances	9,460,451	12,113,698	15,131,748	17,480,548	21,365,771
Fixed Assets	97,219	120,222	253,581	418,244	417,003
Non- Banking Assets	3,847	-	-	-	**0**
Other Assets	207,541	217,665	341,265	401,992	516,613
Total Assets	**13,901,200**	**17,187,446**	**30,916,682**	**38,047,679**	**46,088,233**
Interest Income	831,117	970,513	1,460,446	2,269,704	3,104,232
Interest Expenses	412,262	454,918	824,700	1,443,693	2,096,038
Net Interest Income	**418,855**	**515,595**	**635,745**	**826,011**	**1,008,194**
Commission and discount	52,591	50,918	78,837	131,692	247,165
Other Operating Income	12,601	19,557	52,790	78,796	95,172
Exchange Income	49,464	51,989	61,294	70,328	70,532
Total Operating Income	**533,511**	**638,059**	**828,666**	**1,106,827**	**1,421,063**
Employees Expenses	53,232	74,890	121,989	130,336	255,430
Other Operating Expenses	120,112	152,380	223,966	343,850	445,072
Exchange Loss	-	-	-	-	0
Operating Profit Before Provision	**360,167**	**410,789**	**482,712**	**632,641**	**720,561**
Provisions for possible losses	59,377	57,464	40,345	62,350	46,308
Operating Profit	**300,790**	**353,325**	**442,366**	**570,291**	**674,253**
Non-Operating Income/ Expenses	(257)	(271)	2,516	2,552	3,113
Return From Loan Loss Provision	78,515	29,782	198,673	56,621	179,122
Profit From Ordinary activities	**379,048**	**382,836**	**643,556**	**629,464**	**856,488**
Extra ordinary Income /Expenses	-	-	(156,221)	(37,266)	(137,673)
Net Profit including all activities	**379,048**	**382,836**	**487,335**	**592,198**	**718,815**
Provision For Staff Bonus	34,459	34,803	44,303	53,836	65,346
Provision For Income Tax	89,681	100,263	126,658	146,620	188,904
-This Year	-	-	-	-	
-Up to Last Year	-	-	-	-	
Net Profit / Loss	**254,908**	**247,770**	**316,373**	**391,742**	**464,565**

Source: ***NRB Annual Report 2011 and Everest Annual Report***

APPRENDIX - XIV

Financial Highlights of Nepal SBI Bank ltd.

Table: 2

Capital and Liabilities	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Capital	647,798	874,528	874,528	1,861,324	2,102,966
Reserves and Surplus	515,492	540,117	838,079	589,230	776,327
Debenture & Bond	200,000	200,000	200,000	200,000	200,000
Borrowing	815,365	1,627,480	727,466	-	0
Deposit	11,445,286	13,715,395	27,957,221	34,896,424	42,415,443
Bills Payable	48,856	75,115	62,947	72,368	80,685
Proposed & Payable dividend	91,024	12,229	24,905	83,080	93,465
Tax Liabilities	-	-	-	-	0
Other Liabilities	137,379	142,582	231,536	345,253	419,347
Total Liabilities	**13,901,200**	**17,187,446**	**30,916,682**	**38,047,679**	**46,088,233**
Cash Balance	287,530	308,102	652,027	815,680	1,007,688
Balance With NRB	556,678	403,810	444,139	1,842,802	2,330,927
Bank Balance with Banks	278,481	631,049	807,740	782,780	1,539,210
Money At call	350,000	304,013	-	-	0
Investment	2,659,453	3,088,887	13,286,182	16,305,633	18,911,021
Loan and Advances	9,460,451	12,113,698	15,131,748	17,480,548	21,365,771
Fixed Assets	97,219	120,222	253,581	418,244	417,003
Non- Banking Assets	3,847	-	-	-	**0**
Other Assets	207,541	217,665	341,265	401,992	516,613
Total Assets	**13,901,200**	**17,187,446**	**30,916,682**	**38,047,679**	**46,088,233**
Interest Income	831,117	970,513	1,460,446	2,269,704	3,104,232
Interest Expenses	412,262	454,918	824,700	1,443,693	2,096,038
Net Interest Income	**418,855**	**515,595**	**635,745**	**826,011**	**1,008,194**
Commission and discount	52,591	50,918	78,837	131,692	247,165
Other Operating Income	12,601	19,557	52,790	78,796	95,172
Exchange Income	49,464	51,989	61,294	70,328	70,532
Total Operating Income	**533,511**	**638,059**	**828,666**	**1,106,827**	**1,421,063**
Employees Expenses	53,232	74,890	121,989	130,336	255,430
Other Operating Expenses	120,112	152,380	223,966	343,850	445,072
Exchange Loss	-	-	-	-	0
Operating Profit Before Provision	**360,167**	**410,789**	**482,712**	**632,641**	**720,561**
Provisions for possible losses	59,377	57,464	40,345	62,350	46,308
Operating Profit	**300,790**	**353,325**	**442,366**	**570,291**	**674,253**
Non-Operating Income/ Expenses	(257)	(271)	2,516	2,552	3,113
Return From Loan Loss Provision	78,515	29,782	198,673	56,621	179,122
Profit From Ordinary activities	**379,048**	**382,836**	**643,556**	**629,464**	**856,488**
Extra ordinary Income /Expenses	-	-	(156,221)	(37,266)	(137,673)
Net Profit including all activities	**379,048**	**382,836**	**487,335**	**592,198**	**718,815**
Provision For Staff Bonus	34,459	34,803	44,303	53,836	65,346
Provision For Income Tax	89,681	100,263	126,658	146,620	188,904
-This Year	-	-	-	-	
-Up to Last Year	-	-	-	-	
Net Profit / Loss	**254,908**	**247,770**	**316,373**	**391,742**	**464,565**

Source: *NRB Annual Report 2011 and SBI Annual Report*

APPRENDIX-XV

Financial Highlights of Nepal Bangladesh Bank ltd.

Table: 3

Capital and Liabilities	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Capital	719,852	744,126	1,860,315	1,860,315	2,009,396
Reserves and Surplus	(3,344,015)	(2,935,574)	(748,073)	273,257	251,769
Debenture & Bond	-	-	-	-	
Borrowing	230,000	30,000	-	-	
Deposit	9,461,535	10,883,652	9,997,697	10,052,182	11,511,677
Bills Payable	39,410	30,012	12,629	15,401	
Proposed & Payable dividend	1,299	1,301	1,398	-	
Tax Liabilities	30,332	-	6,729	-	
Other Liabilities	116,135	637,509	833,857	329,886	2,159,167
Total Liabilities	**7,254,548**	**9,391,026**	**11,964,552**	**12,531,041**	**15,932,009**
Cash Balance	391,686	612,025	459,402	422,008	2,474,696
Balance With NRB	614,432	1,005,830	1,869,815	1,423,257	
Bank Balance with Banks	157,935	304,993	242,200	213,033	
Money At call	50,000	1,000	1,000	-	
Investment	1,034,560	1,389,901	2,222,432	2,112,751	2,472,659
Loan and Advances	4,409,013	5,457,809	6,704,943	7,809,544	10,237,456
Fixed Assets	140,807	147,747	139,198	155,327	307,504
Non- Banking Assets	111,925	37,087	-	-	
Other Assets	344,190	434,634	325,562	395,121	439,694
Total Assets	**7,254,548**	**9,391,026**	**11,964,552**	**12,531,041**	**15,932,009**
Interest Income	982,197	828,276	1,337,112	1,167,627	1,435,080
Interest Expenses	432,219	397,997	409,776	476,787	756,269
Net Interest Income	**549,978**	**430,279**	**927,336**	**690,840**	**678,811**
Commission and discount	85,219	105,300	122,393	145,796	162,850
Other Operating Income	117,653	190,767	125,074	50,496	61,582
Exchange Income	40,962	90,111	80,549	49,840	59,726
Total Operating Income	**793,812**	**816,457**	**1,255,353**	**936,972**	**962,969**
Employees Expenses	112,547	140,837	138,424	146,641	189,433
Other Operating Expenses	114,326	121,863	123,306	128,766	139,068
Exchange Loss	-	-	-	-	
Operating Profit Before Provision	**566,939**	**553,757**	**993,623**	**661,565**	**634,468**
Provisions for possible losses	1,502,798	379,304	283,319	148,389	422,426
Operating Profit	**(935,859)**	**174,453**	**710,303**	**513,176**	**212,042**
Non-Operating Income/ Expenses	24,200	18,239	22,934	18,384	25,162
Return From Loan Loss Provision	34,277	1,343,374	1,905,860	1,318,048	310,884
Profit From Ordinary activities	**(877,382)**	**1,536,066**	**2,639,097**	**1,849,608**	**548,088**
Extra ordinary Income /Expenses	-	(697,887)	(14,990)	(523,481)	106,998
Net Profit including all activities	**(877,382)**	**838,179**	**2,624,108**	**1,326,127**	**655,086**
Provision For Staff Bonus	-	76,198	238,555	120,557	59,553
Provision For Income Tax	184,198	165,494	227,446	184,190	180,023
-This Year	-	-	-	-	
-Up to Last Year	-	-	-	-	
Net Profit / Loss	**(1,061,580)**	**596,487**	**2,158,106**	**1,021,380**	**415,510**

Source: *NRB Annual Report 2011 and NBBL Annual Report*

APPRENDIX- XVI

Financial Highlights of Nepal Himalayan Bank ltd.

Table: 4

Capital and Liabilities	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Capital	810,810	1,013,512	1,216,215	2,000,000	2,400,000
Reserves and Surplus	1,335,690	1,499,479	1,903,666	1,439,205	1,595,478
Debenture & Bond	360,000	860,000	500,000	500,000	500,000
Borrowing	235,968	83,178	-	-	10,000
Deposit	30,048,418	31,842,789	34,681,345	37,611,202	40,920,627
Bills Payable	91,303	102,670	113,509	216,159	31,655
Proposed & Payable dividend	130,940	263,076	162,097	189,473	336,842
Tax Liabilities	11,913	19,131	10,163	-	0
Other Liabilities	494,099	491,696	733,327	761,085	941,601
Total Liabilities	**33,519,141**	**36,175,531**	**39,320,322**	**42,717,124**	**46,736,203**
Cash Balance	177,242	278,183	473,760	514,223	632,046
Balance With NRB	1,272,543	935,842	2,328,406	2,604,791	1,390,626
Bank Balance with Banks	307,556	234,118	246,361	747,476	941,979
Money At call	1,710,024	518,529	1,170,794	308,840	734,000
Investment	11,822,985	13,340,177	8,710,691	8,444,910	8,769,938
Loan and Advances	16,997,997	19,497,520	24,793,155	27,980,629	31,566,977
Fixed Assets	574,060	726,068	952,196	1,061,871	1,187,493
Non- Banking Assets	12,766	10,307	22,695	-	0
Other Assets	643,968	634,787	622,265	1,054,384	1,513,144
Total Assets	**33,519,141**	**36,175,531**	**39,320,322**	**42,717,124**	**46,736,203**
Interest Income	1,775,582	1,963,647	2,342,198	3,148,605	4,326,140
Interest Expenses	767,411	823,745	934,778	1,553,530	2,414,807
Net Interest Income	**1,008,171**	**1,139,902**	**1,407,420**	**1,595,075**	**1,911,333**
Commission and discount	193,224	202,888	284,302	270,258	350,365
Other Operating Income	40,329	62,104	46,343	112,346	129,517
Exchange Income	151,637	192,601	249,983	180,278	195,528
Total Operating Income	**1,393,361**	**1,597,495**	**1,988,048**	**2,157,957**	**2,586,743**
Employees Expenses	272,225	307,528	360,981	414,984	517,591
Other Operating Expenses	341,561	329,006	398,317	471,102	582,210
Exchange Loss	-	-	-	-	0
Operating Profit Before Provision	**779,575**	**960,961**	**1,228,751**	**1,271,871**	**1,486,942**
Provisions for possible losses	90,689	58,431	68,806	692,640	471,729
Operating Profit	**688,886**	**902,530**	**1,159,945**	**579,231**	**1,015,213**
Non-Operating Income/ Expenses	3,493	9,700	3,810	12,382	15,856
Return From Loan Loss Provision	412,654	184,107	19,485	265,542	228,146
Profit From Ordinary activities	**1,105,033**	**1,096,337**	**1,183,240**	**857,155**	**1,259,215**
Extra ordinary Income /Expenses	(315,890)	(52,614)	(9,973)	(25,855)	102,292
Net Profit including all activities	**789,143**	**1,043,723**	**1,173,267**	**831,300**	**1,361,507**
Provision For Staff Bonus	71,740	94,884	106,661	75,573	123,773
Provision For Income Tax	225,580	312,970	313,771	246,929	344,619
-This Year	-	-	-	-	
-Up to Last Year	-	-	-	-	
Net Profit / Loss	**491,823**	**635,869**	**752,835**	**508,798**	**893,115**

Source: *NRB Annual Report 2011 and HBL Annual Report*

APPRENDIX-XVII

Financial Highlights of Standard charter Bank ltd.

Table: 5

Capital and Liabilities	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Capital	413,255	620,784	931,966	1,608,256	1,610,168
Reserves and Surplus	1,703,098	1,871,764	2,120,503	1,761,453	2,067,609
Debenture & Bond	-	-	-	-	
Borrowing	400,000	-	300,000	-	350,000
Deposit	24,647,021	29,743,999	35,871,721	35,182,721	37,999,242
Bills Payable	36,168	87,397	72,942	89,220	65,966
Proposed & Payable dividend	341,744	506,367	476,296	769,166	805,084
Tax Liabilities	5,599	2,051	4,263	-	
Other Liabilities	1,049,804	503,426	809,777	802,503	912,450
Total Liabilities	**28,596,689**	**33,335,788**	**40,587,468**	**40,213,319**	**43,810,519**
Cash Balance	378,423	414,876	463,346	509,031	610,691
Balance With NRB	1,613,758	1,266,273	1,851,133	819,509	1,638,277
Bank Balance with Banks	28,841	369,094	822,685	600,766	726,828
Money At call	1,761,151	2,197,538	2,055,549	1,669,460	4,280,888
Investment	13,553,233	13,902,819	20,236,121	19,847,511	17,258,682
Loan and advances	10,502,637	13,718,597	13,679,757	15,956,955	18,427,270
Fixed Assets	125,591	117,272	137,293	118,540	106,071
Non- Banking Assets	-	-	-	-	
Other Assets	633,055	1,349,319	1,341,585	691,547	761,812
Total Assets	**28,596,689**	**33,335,788**	**40,587,468**	**40,213,319**	**43,810,519**
Interest Income	1,411,982	1,591,195	1,887,221	2,042,109	2,718,699
Interest Expenses	413,055	471,730	543,787	575,740	1,003,100
Net Interest Income	**998,927**	**1,119,465**	**1,343,435**	**1,466,369**	**1,715,599**
Commission and discount	221,207	276,432	235,469	338,298	321,771
Other Operating Income	28,785	32,594	33,191	34,479	36,753
Exchange Income	309,086	345,653	480,031	458,564	387,134
Total Operating Income	**1,558,005**	**1,774,144**	**2,092,126**	**2,297,710**	**2,461,257**
Employees Expenses	199,778	225,256	253,056	312,964	365,986
Other Operating Expenses	228,451	230,571	276,327	295,305	305,215
Exchange Loss	-	-	-	-	
Operating Profit Before Provision	**1,129,776**	**1,318,317**	**1,562,743**	**1,689,441**	**1,790,056**
Provisions for possible losses	36,809	69,885	56,635	76,974	82,739
Operating Profit	**1,092,967**	**1,248,432**	**1,506,109**	**1,612,467**	**1,707,317**
Non-Operating Income/ Expenses	9,492	1,682	22,098	36,268	6,445
Return From Loan Loss Provision	20,160	90,635	101,075	58,293	67,159
Profit From Ordinary activities	**1,122,619**	**1,340,749**	**1,629,282**	**1,707,028**	**1,780,921**
Extra ordinary Income /Expenses	(4,915)	(28,039)	(15,356)	(17,024)	(22,764)
Net Profit including all activities	**1,117,704**	**1,312,710**	**1,613,926**	**1,690,004**	**1,758,157**
Provision For Staff Bonus	101,609	119,337	146,721	153,637	159,832
Provision For Income Tax	324,427	374,452	442,091	450,496	479,153
-This Year	-	-	-	-	485,713
-Up to Last Year	-	-	-	-	
Deferred Tax					(6,560)
Net Profit / Loss	**691,668**	**818,921**	**1,025,115**	**1,085,871**	**1,119,172**

Source: *NRB Annual Report 2011 and SCB Annual Report*

APPRENDIX -XVIII

Financial Highlights of Nepal NABIL Bank ltd.

Table: 6

Capital and Liabilities	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Capital	491,654	689,216	965,747	2,028,773	2,029,769
Reserves and Surplus	1,565,395	1,747,983	2,164,494	1,805,452	2,571,204
Debenture & Bond	-	240,000	300,000	300,000	300,000
Borrowing	882,573	1,360,000	1,681,305	74,900	1,650,599
Deposit	23,342,285	31,915,047	37,348,256	46,340,701	49,608,376
Bills Payable	83,515	238,422	463,139	425,444	415,768
Proposed & Payable dividend	509,418	437,373	361,325	434,737	608,931
Tax Liabilities	-	38,777	80,232	24,904	46,529
Other Liabilities	378,553	465,941	502,900	644,814	868,443
Total Liabilities	**27,253,393**	**37,132,759**	**43,867,398**	**52,079,725**	**58,099,619**
Cash Balance	270,407	511,426	674,395	635,987	744,592
Balance With NRB	1,113,415	1,829,471	2,648,596	549,454	1,473,986
Bank Balance with Banks	16,003	330,244	49,521	214,656	239,971
Money At call	563,533	1,952,361	552,888	3,118,144	2,452,512
Investment	8,945,311	9,939,771	10,826,379	13,600,917	13,003,205
Loan and Advances	15,545,779	21,365,053	27,589,933	32,268,873	38,034,097
Fixed Assets	286,895	598,039	660,989	781,480	941,258
Non- Banking Assets	-	-	-	-	0
Other Assets	512,050	606,394	864,696	910,214	1,209,998
Total Assets	**27,253,393**	**37,132,759**	**43,867,398**	**52,079,725**	**58,099,619**
Interest Income	1,587,759	1,978,696	2,798,486	4,047,725	5,258,269
Interest Expenses	555,710	758,436	1,153,280	1,960,108	2,946,691
Net Interest Income	**1,032,049**	**1,220,260**	**1,645,206**	**2,087,617**	**2,311,578**
Commission and discount	150,608	156,234	179,693	215,482	290,855
Other Operating Income	87,574	97,444	144,164	169,548	183,445
Exchange Income	209,926	196,487	251,920	291,441	276,103
Total Operating Income	**1,480,157**	**1,670,425**	**2,220,983**	**2,764,088**	**3,061,981**
Employees Expenses	240,161	262,907	339,898	367,162	455,616
Other Operating Expenses	188,183	220,750	265,158	334,669	403,992
Exchange Loss	-	-	-	-	0
Operating Profit Before	**1,051,813**	**1,186,768**	**1,615,927**	**2,062,257**	**2,202,373**
Provisions for possible losses	14,206	64,055	45,722	355,829	109,470
Operating Profit	**1,037,607**	**1,122,713**	**1,570,205**	**1,706,428**	**2,092,903**
Non-Operating Income/	5,281	24,084	2,190	6,455	6,981
Return From Loan Loss	10,926	11,101	10,618	39,791	7,101
Profit From Ordinary activities	**1,053,814**	**1,157,898**	**1,583,013**	**1,752,674**	**2,106,985**
Extra ordinary Income	40,736	39,991	43,522	34,322	3,148
Net Profit including all	**1,094,550**	**1,197,889**	**1,626,534**	**1,786,996**	**2,110,133**
Provision For Staff Bonus	99,504	108,899	147,867	162,518	192,008
Provision For Income Tax	321,087	342,522	447,615	485,907	573,946
-This Year	-	-	-	-	
-Up to Last Year	-	-	-	-	
Net Profit / Loss	**673,959**	**746,468**	**1,031,053**	**1,138,571**	**1,344,179**

Source: *NRB Annual Report 2011 and NABIL Annual Report*

APPRENDIX-XIX

Financial Highlights of Nepal NMB Bank ltd.

Table: 7

Capital and Liabilities	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Capital	199,541	1,000,000	1,424,641	1,651,650	2,000,000
Reserves and Surplus	84,933	213,481	167,412	159,879	211,462
Debenture & Bond	-	-	-	-	
Borrowing	937,254	278,112	313,961	380,255	497,200
Deposit	1,296,389	1,661,605	6,877,907	10,110,690	12,866,222
Bills Payable	811	24,103	5,447	9,531	2,838
Proposed & Payable dividend	63,664	8,507	7,588	150,150	180,000
Tax Liabilities	970	-	-	-	
Other Liabilities	1,837,375	5,742,084	7,059,708	764,423	190,470
Total Liabilities	**4,420,937**	**8,927,892**	**15,856,664**	**13,226,578**	**15,948,192**
Cash Balance	3,078	17,915	201,847	239,918	264,688
Balance With NRB	12,787	506,384	717,404	522,558	876,757
Bank Balance With Banks	18,402	4,926,120	6,561,098	967,358	352,443
Money At call	1,975,298	93,404	875,527	582,309	259,166
Investment	854,678	1,242,902	1,857,563	2,715,957	2,614,946
Loan and Advances	1,395,885	1,939,967	5,194,211	7,808,119	11,208,574
Fixed Assets	80,177	132,720	223,814	255,294	276,549
Non- Banking Assets	259	-	-	-	
Other Assets	80,373	68,480	225,200	135,065	95,069
Total Assets	**4,420,937**	**8,927,892**	**15,856,664**	**13,226,578**	**15,948,192**
Interest Income	237,933	251,409	402,583	866,182	1,492,385
Interest Expenses	140,253	139,095	254,261	559,544	1,053,451
Net Interest Income	**97,680**	**112,314**	**148,322**	**306,638**	**438,934**
Commission and discount	20,024	27,614	27,262	49,953	27,982
Other Operating Income	51,006	40,724	42,914	66,524	59,472
Exchange Income	-	0	9,343	23,006	47,191
Total Operating Income	**168,710**	**180,652**	**227,841**	**446,121**	**573,579**
Employees Expenses	14,212	20,123	40,274	55,958	75,614
Other Operating Expenses	13,970	32,222	76,983	108,343	136,395
Exchange Loss	-	97	-	-	
Operating Profit Before Provision	**140,528**	**128,210**	**110,585**	**281,820**	**361,570**
Provisions for possible losses	19,512	32,387	42,195	40,253	36,531
Operating Profit	**121,016**	**95,823**	**68,390**	**241,567**	**325,038**
Non-Operating Income/ Expenses	-	600	1,712	1,983	3,903
Return From Loan Loss Provision	186	22,462	27,563	4,006	25,610
Profit From Ordinary activities	**121,202**	**118,885**	**97,666**	**247,556**	**354,551**
Extra ordinary Income /Expenses	-	-	-	1,005	14,385
Net Profit including all activities	**121,202**	**118,885**	**97,666**	**248,561**	**368,936**
Provision For Staff Bonus	11,018	10,808	8,879	22,596	33,539
Provision For Income Tax	35,046	35,255	25,834	69,892	113,892
-This Year	-	-	-	-	103,396
-Up to Last Year	-	-	-	(3,797)	10,495
Net Profit / Loss	**75,138**	**72,822**	**62,953**	**159,870**	**221,505**

Source: *NRB Annual Report 2011 and NMB Annual Report*

APPRENDIX- XX

SUMMARY OF ANALYSIS OF PRIMARY DATE

Please indicate your response to the following statements by ticking ( ) in the appropriate box: With respect to your own feelings about your job, please indicate the degree of your agreement or disagreement with each statement by checking one of the five alternatives below statement.

(1)STRONGLY DISAGREE, (2) DISAGREE, (3) NEUTRAL, (4) AGREE, (5) STRONGLY AGREE

S.N	STATEMENTS	1	2	3	4	5
1.	Foreign Bank is necessary in Nepalese Banking Industry	7	5	3	27	8
2.	Foreign Banking Industry plays a great role to develop industrial sector of the country	4	3	2	30	11
3.	Foreign Investment is one of the Important engines of Economic development	9	12	3	17	9
4.	Foreign Bank presence only in the joint Venture Bank is not satisfactory	3	18	9	14	6
5.	No special provision, appropriate policy, directives & rules are prepared by Government and NRB's	4	7	1	33	5
6.	Political instability, government rules and directives effect to inaugurate the foreign Bank	1	3	5	36	5
7.	Fear of insecure to investment in Nepalese market	2	7	3	29	9
8.	Lack of relevant rule, proper inspections and supervision by NRB	3	5	5	24	13
9.	Domestic Bank is sufficient to Nepalese economy	2	3	7	27	11
10.	Foreign Bank industry Support to invest on Hydro power project	2	7	9	17	15
11.	National securities are the main problem to inaugurate the foreign bank	5	4	0	26	15
12.	Foreign Banking industries play a promotional role to increase Foreign Direct Investment	17	11	0	12	10
13.	Presence as a joint venture Bank is adequate to Nepalese economy	7	12	5	15	12
14.	Foreign bank domination will increase and create problem in Nepalese Banking industry	16	4	0	12	18
15.	There is no meaning to open foreign bank in Nepalese Economy	5	12	8	17	8

Source: *Opinion survey 2012*

APPENDIX-XXI

Dear sir/madam,

This research questionnaire aims to evaluate and develop to find the problem and factors affecting to inaugurate the Foreign Bank in Nepalese Banking Industry. For this report your valued opinion, experience and thoughts may play a significance role. I am interested in the extent to which you agree or disagree with such matters of opinion. Your contribution will be instrumental in this study of foreign bank in Nepalese Banking industry.

SECTION: A

Please indicate your response to the following statements by ticking ( ) in the appropriate box: With respect to your own feelings about your job, please indicate the degree of your agreement or disagreement with each statement by checking one of the five alternatives below statement.

(1)STRONGLY DISAGREE, (2) DISAGREE, (3) NEUTRAL, (4) AGREE, (5) STRONGLY AGREE

S.N	STATEMENTS	1	2	3	4	5
1.	Foreign Bank is necessary in Nepalese Banking Industry					
2.	Foreign Banking Industry plays a great role to develop industrial sector of the country					
3.	Foreign Investment is one of the Important engines of Economic development					
4.	Foreign Bank presence only in the joint Venture Bank is not satisfactory					
5.	No special provision, appropriate policy, directives & rules are prepared by Government and NRB's					
6.	Political instability, government rules and directives effect to inaugurate the foreign Bank					
7.	Fear of insecure to investment in Nepalese market					
8.	Lack of relevant rule, proper inspections and supervision by					

	NRB					
9.	Domestic Bank is sufficient to Nepalese economy					
10.	Foreign Bank industry Support to invest on Hydro power project					
11.	National securities are the main problem to inaugurate the foreign bank					
12.	Foreign Banking industries play a promotional role to increase Foreign Direct Investment					
13.	Presence as a joint venture Bank is adequate to Nepalese economy					
14.	Foreign bank domination will increase and create problem in Nepalese Banking industry					
15.	There is no meaning to open foreign bank in Nepalese Economy					

16. Why foreign bank is necessary in Nepalese Banking Industry? Please mention your opinion.

    ……

    ……

17. What is the role of the Government to open foreign bank in Nepal? Just point.

    ……

    ……

18. What types of techniques should be adopted by the Government?

    ………

    ………

19. What is the reason to open foreign bank in Nepal? Please give your opinion.

    ……

    ………

20. What is the main problem to open foreign bank in Nepal? (just points)

………

………

SECTION: B (GENERAL)

1. Gender : ☐ Male ☐ Female
2. Nationality ☐ Nepali ☐ Non-Nepali
3. Age Group

   ☐ Below 25 years ☐ 25-35 years ☐35-50 years

   ☐ 50-65 years ☐ Above 65 years
4. Education

   ☐ Secondary level ☐ University undergraduate degree

   ☐ Post Graduate degree ☐ Master/ PhD.
5. Occupation………………………………………….

Thank you very much for your valuable time to answer this survey. Your contribution is highly appreciated.

anking industry in Nepalese banking industry.